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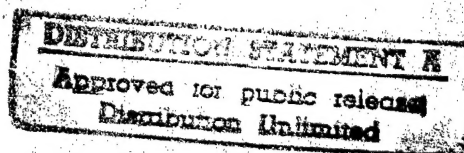


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# ***JPRS Report***

## **Soviet Union**

### ***International Affairs***



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We members of the current staff of FBIS extend our thanks to consumers for their interest in FBIS products. To past staffers we extend our thanks for helping the service reach this anniversary year. At the same time, we pledge our continued commitment to providing a useful information service.



R. W. Manners  
Director  
Foreign Broadcast Information Service

# Soviet Union

## International Affairs

JPRS-UIA-91-003

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### Arbatov-Akhromeyev Polemic on Defense Spending Viewed

91UM0187A Moscow *KOMMUNIST*  
*VOORUZHENNYKH SIL* in Russian No 19, Oct 90  
(signed to press 23 Aug 90) pp 33-43

[Article by Captain Eduard Gams, USSR people's deputy, and Yuriy Borisov, member of the USSR Journalists Union, under the rubric "Theory and Practice": "Who Is To Pay For Security?—Polemic Commentary on Military Issues Between Academician G.A. Arbatov and Marshal of the Soviet Union S.F. Akhromeyev"]

#### [Text] "Budget Authority" and Real Military Expenditures

If one attentively follows the polemic discourse on military-political issues in which Academician G.A. Arbatov and Marshal of the Soviet Union S.F. Akhromeyev have been engaged in the pages of our newspapers, he cannot help but note that with each newly published article their discussion is becoming less and less constructive. It is taking on the characteristics of a "dialogue of the deaf" in which the sides strive not so much to understand one another as much as to inflict more pain. Academician Arbatov, it seems to us, thrives to a particularly great extent on this. His recently published materials on military-strategic issues (see *OGONEK*, Nos. 17 and 22 of this year) are permeated with a veritable hunter's zeal. Their "denunciatory ardor" seems to have been rented out by the academician from his recent works on exposing "the aggressive essence of American imperialism."

And although Arbatov states that he is in favor of "honest, principled, and good-natured dialogue" on military issues, the tone of his current pronouncements in the press are more indicative of the opposite. Their clearly confrontational spirit, blunt irreconcilability with anyone's conclusions except his own, a striving to discredit not so much the reasoning of his opponents as the opponents themselves (we need only consider the quite controversial thesis of deceptive generals)—all of this constitutes something far removed from the constructiveness which must comprise the spirit in which such complex problems are discussed. As far as the academician's reasoning itself is concerned, it suffers in a number of particular instances and—most importantly—in its conclusions, in our view, from extreme oversimplification, if not actual bias.

Unfortunately, although the counter-conclusions of Marshal Akhromeyev are sustained in a spirit of far greater propriety, they too, it seems, are a long way from exhaustively uncovering the essence of the problems under discussion.

One gets the impression that both authors are applying the same, entirely simple methodology in their argumentation, which amounts in the final analysis to a scrupulous calculation of the amounts of military expenditures and quantity of arms possessed by the USSR and United States. Here the similarity of their methodology does not

prevent them from pursuing completely opposite objectives in their dispute. Arbatov exerts every effort striving to prove the excessiveness of our military forces, and Akhromeyev insists on their reasonable sufficiency. Appropriate figures result: Arbatov shows those which support his calculations, and Akhromeyev—his own. It must be stated that in no way does everything go smoothly with regard to the factual reasoning of both debate participants. In their polemic zeal they sometimes show no special concern for standing on ceremony with the facts, fitting these in with the conclusions they require. Arbatov, for example, discourses on U.S. military expenditures, insisting that these show a clear trend towards reduction. In this regard, he uses the concept of so-called "budget authority" of the U.S. Department of Defense which, in his view, is "a more indicative and accurate" criterion in determining the level of military effort. The only thing not understood is why—if this is indeed true—the entire world uses the actual figures of states' military expenditures and not some "budgetary authority." Description of the military might of states begins with data on the size of military expenditures in any foreign military reference.

And this contains its own logic. For expenditure, as opposed to "authority," comprises already substantiated military might, armament programs actually implemented—hundreds and thousands of missiles, tanks, aircraft. While "budget authority" is something ephemeral in essence and readily adaptable to adjustment in this direction or that. We have one measure of this authority today, and tomorrow—look, there's another. Any country, especially such a powerful country as the United States, can easily adjust its "budget authority" in the sphere of defense toward augmentation—as was done by Washington, for example, after the United States entered into World War II. In precisely this manner, today's American Congress can vote additional military appropriations if the world situation deteriorates; i.e., in the space of one hour it can sharply increase this same "budget authority." We are all witnesses of recent events in which the United States (after Iraq "annexed" Kuwait in August of this year), without consideration of any financial expenditures, swiftly built up a very powerful contingent of its armed forces in Saudi Arabia and in the Persian Gulf.

As far as real defense expenditures are concerned, according to official NATO assessments published in the magazine *NATO—SIXTEEN NATIONS* (December 1989-January 1990, pp 50-51), U.S. military appropriations in constant 1980 prices grew from \$138,191,000,000 in 1980 to \$194,647,000,000 in 1989. Here we should note for the sake of objectivity that 1989 expenditures are a bit over \$5 billion less than for the peak year of 1986, but are nonetheless \$20 billion greater than the costs incurred by the United States during the period of the Vietnam War, and \$64 billion greater than after it ended. It should be emphasized that all expenditures are cited in constant (i.e., comparable) 1980 prices, which Academician Arbatov insists upon. Incidentally,

we see a curious picture emerging in recent times. According to that same official NATO data, U.S. military expenditures in 1989 were reduced by \$2 billion in comparison with the previous year. But the combined military expenditures of the other NATO states increased by this very amount at the same time! The result: Total volume of NATO military appropriations remained at its prior level.

The data here presented make it impossible to agree with the director of the Institute of the United States and Canada of the USSR Academy of Sciences, Academician G.A. Arbatov, in seeing any serious reduction of present U.S. military efforts and those of the military alliance it heads. Of course the situation in this sphere may change significantly in the coming years. But it is very doubtful that the Americans and their allies will capture the initiative with respect to limitations on military effort. The present White House leadership has stated unequivocally that it is prepared to reduce military appropriations only if it becomes convinced there has been a significant decrease in the "Soviet military threat." Recent events in Eastern Europe, the unilateral withdrawal of our forces from this region, and the reduction of the Soviet Armed Forces by half a million men are apparently convincing them of this. So here, as a step taken in response (I emphasize—in response), we see the Pentagon beginning to consider the possibility of curtailing its budget and personnel strength by 25 percent. But this consists only of discussions at present, while on our part we are seeing a real reduction in military readiness.

The emphasis Academician Arbatov makes in his argumentation on comparing military capabilities of the two rival states, the USSR and United States, appears to be unjustified. He completely ignores the indisputable fact that other powers allied with the United States also confront the Soviet Union in the military-political sphere, states with powerful military and economic potential (the FRG, Great Britain, France, etc.), while our own country has no allies equivalent to these powerful states. Arbatov finds it suitable to calculate the correlation of forces on a bilateral Soviet-American basis, since this allows speculative discussion of our "unwarranted advantages" in a number of spheres. But a truly accurate calculation of the correlation of forces can be made only on a bloc basis, taking into account the aggregate military capabilities of the Warsaw Pact and NATO—in the manner this is done at the Vienna negotiations on reducing conventional armaments and forces in Europe. In this regard it would be proper to take into account the current crisis situation of the Warsaw Pact and the great likelihood it will be further weakened in the near future.

#### When Was Academician Arbatov Right?

A strange impression is left by Comrade Arbatov's references to being uninformed earlier in military matters. Here he contradicts himself, on the one hand basing his competence in this sphere on his experience on the front and 20 years in the position of director of the Institute of the United States and Canada, and on the

other—asserting that he had been fooled up until recently with regard to the true scope of Soviet military might. To present things today in such a manner—stating that the director of one of the main research centers in the sphere of foreign policy was operating blindly, developing recommendations over the years concerning key foreign policy decisions without a knowledge of the true state of affairs—is in our view tantamount to Academician Arbatov's directly underestimating the level of education not only of his opponents, but in fact of all his readers. Entirely apparent in this, and not particularly plausible, is his desire to free himself from sharing responsibility for our past policy, which in all fairness is attributable to the academician himself as well as to his colleagues.

Arbatov writes that distorted information lay at the foundation of his former views, that he "did not know the state of affairs regarding the military budget, nuclear armaments, or the state of military forces in Europe." Fine. We will allow this. But what has changed since that time? Could it be that all data on the state of defense of the country has been made public in the USSR? And that this revolutionized the views of the academician? By no means. "Again that damned uncertainty," "our military comrades are very unwilling to stop concealing the truth—you have to squeeze it out of them drop by drop, and this 'truth' is constantly changing; one statement contradicts another," "the main bulk of information remains secret, as before"—this is how Arbatov evaluates the situation today regarding military information in the USSR. And he draws the conclusion: "Again we are forced to consult Western sources." But these very sources were accessible to the prominent academician even in the 1970's. Why did he not arrive then at the same conclusions he is making now? After all, at that time he knew quite well the "truth" he is declaring only today with such fervor. But this is precisely the point—that in the "stagnation" years Arbatov categorically did not agree with it. And now, possessing in fact the same volume of information (our sources, as he himself admits, remain basically inaccessible), he agrees with it. To explain the paradox we face here based on the academician's version, under the assertion that he has finally "recognized the truth," is logically impossible. It would be good if Georgiy Arkadyevich himself acknowledged this circumstance and agreed with the obvious fact that the "revolution" in his world outlook occurred simultaneously with the change of political leadership in our country and the change in main reference points of USSR foreign policy in the mid-1980's. No sooner and no later.

Apparently aware of the decline of his moral position (all the same it is not becoming for such a respectable individual to abandon his prior convictions so readily), the academician can find nothing better than to come down upon his opponent in the fashion of the crude principle of the marketplace—"And who the hell are you?" (OGONEK No 22, 1990). It is impossible not to note, however, that in accusing Marshal of the Soviet Union S.F. Akhromeyev of

every variety of sin, G.A. Arbatov is in the decisive point entirely unable to "finish off" the marshal—for as opposed to him, Akhromeyev has made no 180 degree shifts in his convictions and today supports, in fact, the very same positions on a number of defense issues he did 10-15 years ago. He may be accused of conservatism on this account, of course, but this can in no way be seen as wishy-washiness or opportunism, of which the academician is clearly guilty. And whatever one might say, these are "two big differences."

Still another aspect of the problem of no small importance emerges in connection with this. The fact of the matter is that practically all the scholarly works of the respected academician—to which he owes his position as the luminary of Soviet Americanology—were written in the so-called stagnation years and devoted to the foundation of that USSR military-political policy Comrade Arbatov has today exposed to debunking. But you do not have several different truths in science. If Georgiy Arkadyevich is correct in his assessments today, consequently he was incorrect at that time. What we have is a situation in which his prior works were written from fallacious positions and must today be categorized as pseudoscientific. But then the question arises—by what proper right does Comrade Arbatov continue to maintain the lofty vocation of academician, to be numbered among the directors of a leading Soviet institute and enjoy all the privileges which come with this position, if his "outstanding" scholarly achievements are, to put it mildly, strongly exaggerated? Would it not be more proper for him, as an honest man and man of principle, to simply give up that portion of his "regalia of honor" which it turns out is not supported by a golden reserve of scientific truths acquired through the sweat of his brow?

#### What Does Marshal Akhromeyev Hold Back?

The conclusions drawn by Marshal S.F. Akhromeyev, for his part, also seem insufficiently convincing in a number of instances. In particular, when he uses indices expressed in current prices to prove the growth in American military expenditures—and not in constant prices (which Academician G.A. Arbatov indicates, and correctly so, is the only scientific approach).

The way in which the Marshal tries to prove the correctness of his calculations of strength of the USSR and U.S. Armed Forces is also entirely subject to dispute. In his article in SOVETSKAYA ROSSIYA (12 May of this year) he lists in the most highly detailed manner the combat composition of the American Armed Forces, down to number of divisions, brigades, and combat air wings in the National Guard and Armed Forces Reserves. It would be logical to compare these data with the corresponding indices for our Armed Forces. But S.F. Akhromeyev fails to do this for some reason, leaving the reader with the involuntary suspicion that he has consciously left out something important.

Also a cause of bewilderment, to put it mildly, is the nature of Comrade Akhromeyev's argument on the

advisability of constructing aircraft carriers in the USSR. "At present they are necessary," the Marshal writes. "That is the situation in the world." As simple as that. Understand it as you wish. It is felt that in this instance Sergey Fedorovich should be less laconic. The issue rightly deserves it. A number of experts believe, for example, that the aircraft carrier construction program is nothing other than a vestige of the Brezhnev era when the Soviet naval leadership headed by USSR Admiral of the Fleet S.G. Gorshkov developed arrogant and ambitious plans for competing with the Americans on all seas and oceans in keeping with the overall spirit of the foreign policy of that time. Perhaps in the light of present-day realities of our foreign policy and the state of the country's economy, construction of aircraft carriers can in no way be justified?! Reference to the presence in the United States of 15 carrier groups is hardly convincing—after all, one must take into account the difference in geostrategic position between the United States and Soviet Union. Defense of sea lines of communication is indeed a vitally important question for America, while for us this is a less severe problem. Marshal Akhromeyev also skirts in silence G.A. Arbatov's question, entirely justified, regarding reasons for the quite substantial difference in rates of production of ground forces armament in the USSR and United States. Indeed, why does the USSR continue annually to manufacture more tanks, armored personnel carriers, artillery systems, and certain other types of armament than the United States, when we have a significant superiority in these? The marshal's silence does not add weight to his position.

#### What Then Is All the Fuss About?

It must be said that several levels are discernible in the approach of the academician and the marshal in assessing the military might of the USSR and United States.

First of all, they are debating the total strength ratios of the armed forces of the two powers. Here each has chosen appropriate statistics to support his view. It appears, however, that neither debater is correct in principle. Comrade Akhromeyev, for example, arbitrarily excludes from total Soviet Armed Forces strength those serving as border and railroad troops. Even in view of the specific nature of their service, these are nonetheless soldiers who wear a uniform and know how to shoot—and in fact border troops are among the most well trained officers, warrant officers, sergeants, and soldiers.

And we can hardly agree with the fact that the marshal refuses entirely to take into account in the correlation of forces several million Soviet servicemen in the first-line reserve. But these are our soldiers of yesterday, trained specialists who constitute the mobilization resources of many cadre divisions. According to data given by the marshal himself, most major units in the Warsaw Pact are maintained in a reduced configuration in peacetime—they have only 12-18 percent of their wartime personnel strength. These units have their armament and combat equipment (PRAVDA, 2 Mar 1989). The question arises: Can we, on the basis of reality, fail to take

into account the assigned composition of these divisions which comprise "the majority of Warsaw Pact forces" and which, just a few days after the start of mobilization, are to be deployed to their wartime establishment?

Academician Arbatov, in turn, is also at fault when he clearly underestimates the mobilization capacities of the United States, and when he reduces them in fact to the current strength of the regular American Armed Forces. It is simply awkward to have to remind the academician of the U.S. experience of World War II days when they introduced universal military service and were able to mobilize a multimillion man army in an extremely short period of time. There is no basis for believing that the Americans would not be up to this today as well. Especially since in the event of mobilization the draft contingent would naturally be used in headquarters and major units requiring the least degree of qualification, the backbone of their mass army being comprised of today's professional military servicemen.

Generally speaking, we can conclude that the dispute over who has the greater number of "soldiers" seems somewhat pointless.

With regard to assessments by both parties of quantity of armament possessed by the sides, there is no substantive divergence between them at all. Indeed, as far as naval forces are concerned, both parties agree that the United States has significant unilateral advantages in this sphere. The same applies practically speaking to their assessment of ground forces armament, with the exception that here the participants in the debate agree in the view that the Soviet Union has a definite advantage. Arbatov works actively on proving this thesis using data from fairly well known foreign sources (confirmed to a great degree in recent times by official Soviet statistics), while Akhromeyev prefers not to dispute his calculations, acknowledging for his part that in postwar years the USSR and its allies deployed in Europe a powerful grouping of ground forces, chiefly armor troops, and created a military threat to U.S. allies in Western Europe. Moreover, the marshal agrees with the fact that this threat has existed right up to most recent times (PRAVDA, 30 October 1989).

The question arises: What then is all the fuss about? The point is that from essentially identical establishments of fact, the participants in the debate reach diametrically opposed conclusions on the main question: What do we do with Soviet superiority in the sphere of conventional ground forces armament?

Without any further ado, G.A. Arbatov draws a line under his discussion—this superiority is "unnecessary," the Army should be radically reduced, including on a unilateral basis. S.F. Akhromeyev, for his part, believes that there exists on the whole a military balance between the USSR and United States, in the framework of which our superiority in ground force armament is compensated by the American prominence in other varieties of

military power, primarily in naval systems. The marshal's position proceeds from this—that if something is to be reduced, it must be reduced on a equal footing.

In particular, it is not understood why the well-informed academician takes into account only quantitative indices when discussing the correlation of forces between the USSR and United States. After all, he knows better than anyone that with respect to most of the latest technology—which comprises the basis of modern combat equipment—we still lag significantly behind the Americans. Consequently if we want to maintain a balance, we are compelled to resort to compensating for our deficit in quality through a certain surplus in quantity of armaments. And there is nothing new in this. Our defense has traditionally been structured on an advantage using extensional principles. Good or bad—that is the way it is. Incidentally, in June 1941 we had 20,000 tanks against 5,000 German tanks. And even that did not prevent Guderian from reaching Moscow itself. People will respond: What advantage in quantity of arms must we have today in order to prevent a recurrence of this? Will Comrade Arbatov be daring enough to define this proportion?

Every country and every army has its strong and weak points. We are neither America nor Germany—so what do you do?! Russia has its own historically formulated approaches to ensuring security. And to demand that it turn itself inside out in order to be able to equate itself with America with respect to every index is clearly not the best way to proceed.

It must be said in general that the prosecutorial tone used by the director of the Institute of the United States and Canada in holding the Soviet military-industrial complex up to shame for "living off the people" elicits bewilderment, to put it mildly. The academician is somehow easily distracted from the fact that we are talking about a country that quite recently (in historical terms) experienced a horrible military catastrophe which cost it tens of millions of lives. We are talking about a people who endured such heavy psychological trauma that they were prepared to go naked and hungry if that would prevent another invasion. Is it moral to accuse the political and military leadership of such a country if, in fulfillment of a virtually universal popular command, they used every power and means to create a defensive shield with great toughness? It is fashionable today to talk about "crafty generals" but we feel this should not be done!

On the other hand, the marshal's demand for arms reductions on an equal footing, when we have a significant advantage on the land and the Americans at sea, also seems to be unrealistic. In actuality, in order to advance this process the Americans should be convinced to effect a radical reduction of their naval forces. And there can be no doubt but that they will not agree to this. A navy is too important in the global role America has no intention of giving up. Consequently, we see an impasse here.



### Argumentation...On the Level of Oversimplification

So what should be done, taking into consideration the fact that the arms race, in its present hypertrophic state, must be terminated? Can it be there is no way out of the military-strategic impasse we see today which would be acceptable to us—which is not related to capitulatory concessions or setting terms we know will be unacceptable to the other side? It is felt the situation is not quite so—but more about this later.

All figure-based calculations of the correlation of forces between the sides, Marshal Akhromeyev notes justifiably, have meaning only in their linkage with an assessment of the existing and potential military threat. Arbatov's position in this key point is simply not visible—which is somewhat strange, generally speaking, for an individual who claims to be rendering definitive judgments in a given sphere. If his cited references to "lowering the military threat" do prove something, it is only that he is not up to handling this problem area. In essence, the very absence of a meaningful assessment of the military threat turns any discussion on the topic of military structuring into outright speculation.

Arbatov is perplexed at why he is accused of evading an appraisal of the military threat to the Soviet Union. "This sphere—analysis of the international situation and military-political threat—is precisely my specialty, my profession, and it is simply absurd to hear from S.F. Akhromeyev that I am moving away from such topics," the offended academician exclaims. But that is exactly the point. Georgiy Arkadyevich evades serious discussion of this issue, disposing of it through maxims which might be forgivable only for a first-year student: "The fact that the military danger has lessened is clear to everyone who opens his eyes, reads the newspaper, or listens to the radio..." This is the nature of his argumentation, if one can call it that.

And the fact that Arbatov similarly does not even wish to understand how unacceptable such an oversimplified approach is to such a serious question as "threat assessment" does not do him any honor. Or is it that he understands everything while consciously oversimplifying the issue, adapting his views to the mass philistine stereotype?! But that is a completely unscrupulous approach.

Things are somewhat more complicated with respect to this question when we consider Sergey Fedorovich Akhromeyev's stance. In our view he approaches evaluation of the military threat in entirely too traditional a fashion, assessing it primarily through the prism of "the insidious designs of American imperialism," for which—there is no use in hiding it—few people today still believe in such a direct interpretation. It seems to us, in the given instance, that we should more thoroughly examine the issue of the nature of the military threat in general, and of the circumstances under which it may emerge and change. We must focus attention on the existence of potential threats proceeding from volatility in the geostrategic situation and the military-economic capabilities of various states in the world. To reduce the

entire matter merely to American bases and the Pentagon budget is really too great an oversimplification.

In a certain sense, it is precisely the insufficiency of S.F. Akhromeyev's argumentation on this issue which gives G.A. Arbatov an opportunity to harp on the marshal's excessive suspiciousness, his uncertainty regarding favorable development of the world situation, and present himself as an individual with a much broader understanding of the problem. Nonetheless, the healthy cautiousness of Sergey Fedorovich's approach and his evaluation of probable threats make a much stronger impression than the optimism of his opponent, as limitless as it is groundless.

### Is Tranquil Existence Possible in an Extremely Weakened State?

It should be added that it is necessary, in attempting to evaluate the likely military threat, to take into account not only external, but internal factors of its formation as well. The fact of the matter is that the field of actual and potential threats presently existing in the world is formed in accordance with the global balance of power we see today and is subject to changes as this balance evolves. We are experiencing precisely such an evolution today—and as far as we might be able to judge, the course it is taking is not particularly favorable to us. The formation of a new correlation of forces in the world will inevitably be accompanied by modification in the structure of the threats—which, undoubtedly, must increase for those states which become weaker. The clear weakening of the USSR and its system of international alliances we see today points to a high probability of heightened danger for our country in the future. It is necessary for us to realize quite clearly that an assessment of the military threat which actually exists today comprises a far from exhaustive treatment of this topic, insofar as in determining the parameters of structuring the armed forces (calculated to cover decades) it is necessary to predict the probable size of future threats—which in our case, taking into account the general weakness of the USSR, can hardly be expected to decrease. We must precisely understand the fact that the level of USSR interests and rights in the world arena avowed earlier for us was secured through the former, relatively greater military-political potential of our state. Without a doubt, our rights were respected because they were backed up by sufficient strength. With a reduction in this strength, the level of security regarding our interests will fall, and consequently they will be less respected. From this point only one step remains before the emergence of immediate threats which, we must suppose, will not be slow in appearing once our weakness reaches a critical point. This process has already begun in essence. The Soviet Union has too many "attentive" neighbors—from Germany in the west and Iran in the south, to China and Japan in the east—to allow us to exist in tranquility within our present borders (encompassing one-sixth more or less of the earth's land area) in a state of extreme internal weakness.

In our view, it is precisely within the context of such an interdependence between a state's level of might and the level of threats existing against it that such ideas should be approached as those extremely popular today of hasty, unilateral disarmament and universal disintegration of the Union as an unified state. Academician Arbatov, the ideologist advocating such disarmament, should recognize that the lowering somewhat of military danger to our country which is indeed taking place at present and on which basis he is structuring all his reasoning is the consequence primarily of the USSR attainment of a certain level of military-strategic might, and that with the loss of this level of might the magnitude of the threat will most likely grow proportionally.

The excessive attention devoted by the academician and the marshal in their discussions to calculating the armaments of the sides has somehow shaded the entirely important fact that in evaluating the military potential of states, especially such powerful states as the USSR and the United States, it is clearly inadequate to take into account only the amount they have on hand of warheads, tanks, and soldiers. Not last to enter into this concept, but perhaps even first and foremost, should be such components as overall economic potential, the demographic situation, the geopolitical factor, and the moral-political condition of society. In this regard we cannot help but agree with writer K. Rash, who believes that "there is no subject in nature void of a relationship to defense." In developing his thesis, Karem Bagirovich Rash cites a poignant example. He writes: "The French accused the movie *Foggy Waterfront* of facilitating the destruction of France. At first glance this may seem paradoxical, but only at first glance. Through the interminable grief it depicted, the film destroyed the nation morally. We recall that the French went to see this movie before the war the same way that we, in our time, went to see *Chapayev* and *We From Kronstadt*.' I do not know how many armored divisions were saved for the Fascists by *Foggy Waterfront*,' but one thing is certain—the film, made in France, did not fight on the side of the French."

To isolate out of the entire aggregate of factors which comprise the defensive potential of states just the "weapons" parameter alone, as is being done by our esteemed participants in the debate, is entirely incorrect from a scientific point of view. If we consider things that way, then we are forced to conclude, for example, that prior to World War II the United States was one of the weakest states in the world, because back in 1940 the American Army was just about as tiny as the Greek Army. At the same time, even then America had at its disposal a colossal military-economic potential which, being put into action, turned the country in a number of months into the strongest military power in the world. Thus, a truly accurate calculation of the correlation of forces must take into account all components of the defensive might of states. We can limit ourselves to calculations of tanks and soldiers only in the ideal case when all other parameters with respect to rival powers appear to be approximately equal.

There is not even a hint of such equality, however, in the Soviet-American strategic balance. In particular, it is universally recognized how distressing to the USSR is the correlation of Soviet and American economic potentials. Suffice it to say that, according to the latest data from Soviet economists (V. Selyukin, in particular), the gross national product of the USSR comprises something around 15-20 percent of the American level. Nor is a comparison of geopolitical conditions between the Soviet Union and America any more favorable for the USSR. The USSR is situated at the crossroads of the major axes of conflict in the modern world, while the United States prospers on the geopolitical periphery of civilization.

An approach to evaluating the military-strategic balance only by calculating quantities of armaments the sides possess is, essentially, the reflection of an obsolete concept which traces its beginnings to the Brezhnev era, structured basically not on reality but on ideological dogma. The latter stated specifically that "the camp of imperialism" would weaken hopelessly and give up its global positions while the USSR and its allies grew stronger day by day. It is precisely this principle—as optimistic as it was distant from reality—which made it possible for our leadership of that time to pull out of the Soviet-American military-strategic equation its economic, geopolitical, demographic, and socio-psychological parameters.

Today, when we have finally begun to realize how deep is the gulf which separates our economic potential from that of the Americans, it is becoming evident as well that we have been too hasty in abstracting this parameter from consideration in analyzing the correlation of forces. Moreover, in acting this way we have been working against ourselves. And the fact that academician Arbatov even today has no doubts regarding the correctness of such an approach shows how solidly these postulates of the Brezhnev era which have disgraced themselves are etched into his world view.

In continuing to adhere to the narrow (purely military) interpretation of the balance of forces under conditions of a gigantic disproportion in USSR and U.S. economic potential, we are actually working toward the achievement of American world hegemony. Strictly speaking, the Americans are entirely satisfied with the elimination of a great portion of the military arsenals of both sides because in this event the most powerful and decisive trump card—overwhelming economic superiority—will remain on their side untouched. While with us, in such event, nothing will remain, unless you consider our shattered, non-competitive economy. We can argue as long as we like, of course, with respect to how exactly the Americans will use the break-up in their favor of military-strategic parity—for good or for evil. Certainly you cannot rule out the one or the other. But the important thing for us in this instance is the fact that as a result of seemingly equitable reductions in arms which it would seem should provide equal security for the USSR and the United States, one of the sides—i.e., the USSR—will

wind up deprived of any significant instruments whatsoever of influencing the world situation, while the other side, the United States, will continue to possess them in full, as before.

Such is the "algebra" of the military-strategic balance, which argues as we can see with the "arithmetic" for which our esteemed participants in the debate show a preference. Yes, that is how the history of the Soviet Union took shape—it established itself primarily in one-sided fashion as a highly developed military power. Incidentally, there is no telling what the United States would have turned into if it had a past such as ours. The power, security, and tranquility of the USSR have historically been concentrated in military might. America's tranquility and security have been found in its flourishing civilian economy. Both sides embedded their major assets into these priority spheres.

#### **A Captive of Delusions, or Who's Got Who "On the Hook"**

They are actually demanding today that the USSR unilaterally repudiate what has historically comprised the basis of our national existence, assuring us that as soon as we manage to do this we will acquire a new importance—in a peace-oriented, civilian economy which will supposedly ensure our stable prosperity. Must we even address how groundless such promises are? Destruction of the basis of our national existence, with subsequent transition to an alternative one, is a process which will take many decades, over the course of which the country will be in a state of utter degradation, lying open to any foreigner regardless of the nobility of his intentions. And with respect to the latter, it would be naive to believe that we are surrounded only by angels and that no one will attempt to take advantage of the USSR's powerlessness to grab a bigger piece of the pie. Examples of this are abundant in the history of our native land and one would be hard put to recall the opposite taking place. And so the question arises—will the country be able to simply exist until such time as it is able to re-emerge on a new basis?

To continue disarmament negotiations on the basis of the ideology being defended by Academician Arbatov constitutes essentially a delusion, whose consequence might in the very near future constitute the conclusive sociopolitical downfall of the Soviet Union. The West makes no effort to conceal its pleasure as it pursues agreements with the Soviet Union in the military sphere, since every such agreement (even arithmetically equal agreements—although we are actually moving readily toward the signing of unequal agreements!) will inflict a heavy, one-sided strike against the might of the Soviet Union and its capabilities to counteract the pressure of external forces.

Today we are still reckoned with and treated as equals. They try not to strike an authoritative tone with us (you don't want the fish to wriggle off the hook!), but all of that might end tomorrow. It is far from accidental that

people have come to refer to the June 1990 meeting in Washington between M.S. Gorbachev and G. Bush as the last meeting of the leaders of the two superpowers. The theme of a single superpower—America—resounds more and more loudly in the mass media, including the Soviet mass media. But all this is just a taste of things to come, it is felt. Over the years and decades the USSR has ranked as a superpower, and the majority of our citizens have become so accustomed to this that they could hardly even imagine things being somehow different. But well they might—and in the very near future! If we continue along this same road.

What should be done with respect to the situation which has come about? Where can we find a way out? First of all, it is felt, we must reject the arithmetic approach to treating problems of security on which basis the current disarmament negotiations are being conducted. Finally, we must cease adhering to the fallacious conviction that this path is capable of drawing us decisively closer to resolution of our socioeconomic problems or to a radical reformation of the basis of our national existence. We must recognize that the path of accelerated demolition of these bases—even with the most noble of intentions—is a dangerous and foolish undertaking.

We should move on, proceeding from the differences history has shaped in the nature of these national foundations in the USSR and United States, and from an acknowledgement that we cannot allow their radical break-up, especially under conditions where it is impossible to replace them in an adequate and timely fashion. The realistic political course for both sides must be based on a recognition of the historical originality of these foundations and of the right of each to exist, in any case over the course of a certain transition period.

Supporting this logic, it would be unjustified, for example, for the United States to insist on an immediate leveling of USSR military might with its own without corresponding positive moves being taken in the state of the USSR civilian economy. In the meantime, the United States today categorically rejects such linkage, striving to achieve a unilateral weakening of the USSR. The Americans are working toward destruction of our military potential while the civilian sector of the Soviet economy lies in deep stagnation, as before.

#### **Why Should U.S. Security Be Paid For Exclusively by the Soviet Union?**

Of course we can agree that the United States' claims to equal security with the USSR in the military sphere are justified. But the question arises—why must this security be achieved not at their expense, but only at cost to us? In the disarmament process which has begun, realistically speaking, we are reducing our armaments by far greater quantities than is America; i.e., we are suffering unilateral losses amounting to tens of billions of rubles. In essence, this sum constitutes the price at which the national security of the United States is being purchased. The only thing not understood is why an acquisition so

valuable to the Americans must be paid for exclusively by the Soviet Union. It would be logical on the part of the United States to agree to at least equivalent expenditures for the sake of assisting the USSR in establishing its civilian economy. This would constitute a truly bilateral movement—we for our part reducing our military potential to a level acceptable to the United States, and the Americans for their part providing us economic assistance in the same amount, thereby facilitating a relatively successful USSR transition to a new basis of national existence.

One must note that the Americans are in no great hurry to share their billions with us, especially since the Soviet side is not insisting on it, agreeing submissively to suffer colossal unilateral losses in the disarmament process. Yet Comrade Arbatov is still not satisfied, as if saying—look fellows, we are too slow in accomplishing disarmament, we are dragging our feet.

We are absolutely convinced that the tremendous military potential which has been accumulated by the Soviet Union cannot be simply thrown out the window for nothing in return. It can and should be put to work for our renaissance. It must become a significant factor of exerting pressure on our Western "counterparts" so as to enable our country to put its economic affairs in order and set out toward new frontiers. In order to do this, we must as a minimum resolutely reject the present perverse concept of disarmament negotiations and espouse a new, more all-encompassing version which integrates the entirety of military and economic issues. This shift must be accomplished as soon as possible, in view of the critical state our country finds itself in.

The West should pay some bills for our economic restructuring if it seriously wants to put an end once and for all to the specter of the "Soviet military threat" which poisons its existence.

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#### **Azerbaijan Foreign Minister Interviewed**

91UF0382A Baku BAKINSKIY RABOCHIY in Russian  
16 Dec 90 pp 1-2

[Interview with Azerbaijan Foreign Minister G. Sadykhov by S. Bazhenov: "We Are Becoming Diplomats"]

[Text] Baku—In Paris at the end of November, a meeting was held of the heads of state of European countries and the United States and Canada on questions of security and cooperation in Europe. A representative of Azerbaijan, Guseynaga Sadykhov, foreign minister of our republic, took part in the conference for the first time as part of the country's delegation. He talks about this trip and the planned changes in the activity of the Azerbaijan Foreign Ministry with a BAKINSKIY RABOCHIY correspondent.

[Bazhenov] Guseynaga Musayevich, participation in such a major event for Europe as the Paris meeting was

surely not fortuitous. The republics' changed status cannot fail, evidently, to influence their role in the international community also....

[Sadykhov] I should make clear right away that I was not a member of the official USSR delegation at the Paris meeting. Together with officials of the foreign policy sphere of other republics we performed a representative role. But the significance of our participation in the intermediate meeting of heads of the European countries between Helsinki-1 and Helsinki-2 was great, nonetheless. And primarily for us personally.

First, direct participation in an event of such political scale (it was attended by more than 7,000 journalists alone) was an invaluable school of diplomatic work at the highest level. Second, such activities afford great opportunities for keeping the world community abreast of the processes that are unfolding in our republic. Third, it was in Paris, however oddly, that we were able, for the first time, perhaps, to make the close acquaintance of our colleagues from other republics, ascertain in detail their understanding of the situation that has taken shape in the country and evaluate more precisely the directions of future horizontal contacts within the framework of our renewing Union.

The chairman of the Council of Nationalities of the Russian Supreme Soviet, the foreign ministers of Moldova and Armenia, and Belorussia's permanent representative in UNESCO took part in the Paris meeting. There was no representative from the Ukraine. The Georgian representative arrived at the conference late and altogether kept quite apart from the Union delegation. There were no representatives from the Baltic republics since they had sought observer status at the meeting in Paris, but the organizing committee had not supported them.

The entire two and a half days in Paris were very intense. I had interesting talks with journalists of the most diverse publications, diplomats from the United States, Germany, and Holland and officials of the UN machinery. So had the organizers of the Paris meeting not invited us on a tour of Paris prior to the arrival of the main delegation, we would most likely not have seen the capital of France. Generally, the trip was filled up primarily with work....

[Bazhenov] Comparing our country's successes in foreign policy activity with the difficult situation that has taken shape within the Union has already become the rule. Indeed, our "foreign" perestroika has become a reality that can be perceived by all in practice. In this connection the question: Will there be any changes in the activity of the foreign policy department of our republic?

[Sadykhov] I hope that there will be very shortly. The Azerbaijan Foreign Ministry has already drawn up a wide-ranging program of restructuring its own work. It should be approved quite soon in the government of the republic and will then have acquired the legal right to



implementation. I can today, therefore, speak merely of our ideas in general outline.

Our ministry recently underwent reorganization, for example: four departments were created out of the three (consular, protocol, and information). And with the change of name of the departments there also has been a change in their functions to a large extent.

Departments of information and political analysis, international economic relations, and cultural and humanitarian relations, and a consular service and protocol department have been created.

In addition, the new tasks facing the republic's diplomats under the conditions of strengthening actual sovereignty of the members of the Union of SSR are forcing us today even to think about the creation in our ministry of new subdivisions. For example, there has long been a need for the Azerbaijan Foreign Ministry to have a Near and Middle East department. As you know, priorities for Azerbaijan from the viewpoint of the relations set forth above are such countries as Iran, Turkey, Afghanistan, and Iraq. In studying in skilled manner the political processes occurring there and drawing up the corresponding recommendations for the USSR Foreign Ministry and the leadership of our republic, we will be able to play a more substantial part in the business of stabilizing the situation in this complex region.

There has been a considerable broadening and strengthening of Azerbaijan's independent ties to various international public organizations. Contacts of republic organizations and ministries and departments with their overseas partners are increasingly switching to a permanent footing. This is a natural process. We would like to create under the auspices of our Foreign Ministry a special international organizations department in order in the very near future to have representatives of Azerbaijan included in such major organizations of the international community as UNIDO, UNICEF, and UNESCO. In addition, there are no objections on the part of the USSR Foreign Ministry to Azerbaijan having its own permanent representative in the United Nations even. I am sure that we will necessarily come to this sooner or later, but it is necessary to be preparing even now.

A very necessary business in the extremely complex political situation that has come about in our region is providing the republic with full and reliable information on what is being thought and written about us overseas and also prompt notification of the world community of the events occurring in Azerbaijan. To this end it is planned to create at our Foreign Ministry our own press center, where meetings, briefings, and news conferences with local and foreign journalists will be organized.

One further innovation, which has already obtained conclusive support in the USSR Foreign Ministry, is the inclusion as part of Soviet embassies and general consulates of representatives of Azerbaijan in countries in a consolidation of contacts with which we are particularly interested. Five such countries have already been determined: Iran, Iraq, Turkey, Saudi Arabia, and Germany. Our representatives there

would defend the interests of the republic directly, which should have a positive effect on the entire spectrum of Azerbaijan's ties to these countries.

In addition, in connection with Articles 7 and 33 of the Law on Citizenship of the Azerbaijan SSR, enacted on 26 June 1990, these representatives of the Azerbaijan Foreign Ministry will be entrusted with duties pertaining to the solution of all questions connected with defense of the interests of citizens of the republic temporarily or permanently in these states.

And, finally, a productive initiative, in our view, of the Azerbaijan Foreign Ministry concerning the creation of an association of Caspian countries headquartered in Baku is at the development stage. Such an idea has preliminarily already obtained approval in the leadership of our republic and in Moscow and in the republics whose territory looks out onto the Caspian. We intend such an association to incorporate not only Azerbaijan, Russia, Turkmenia, Kazakhstan, and Iran but also, in accordance with the regulations defining the status of international associations, "second echelon" countries and republics, that is, associations contiguous with the principal subjects.

What goals are we pursuing in embarking on the creation of an association of Caspian countries (AKS)? First, the AKS could, in our view, play a pivotal part in the elaboration of an environmental policy pertaining to use of the riches of the Caspian uniform for all republics and countries concerned. Inasmuch as the Caspian is an inland system, we cannot on one shore perform some ecologically useful activities, and on the other, put its nature at the service of purely production needs, making it a cesspool of the plants and factories. And in the financial respect also, the problem is so serious that it is impossible to restore the waters of the Caspian to health alone.

One further aim of the creation of the AKS is the establishment of direct economic and trade cooperation among Caspian republics and states. In addition, the creation of the association will make it possible, in our opinion, to additionally attract the attention of international scientific and business circles to the development of this region to the common benefit of all the parties concerned. Azerbaijan's advantageous geopolitical location will enable us to quickly take a considerable step forward along the path of the development of a republic transport system and the creation in Baku of a most modern communications center, satellite included.

In a word, we are hoping that with the creation of the AKS, Azerbaijan will be able to restore its historical role of connecting link between Europe, Asia, and Africa.

As you can see, big changes are planned in the activity of the Republic Foreign Ministry. Their practical realization will require much effort and, of course, money.

But it is possible to become not conditional diplomats, as was the case recently, but diplomats in practice (it is such an assignment that we set ourselves today) only via

specific activity that is as useful as possible to the republic's interests. The times themselves have given us our assignments. Not lagging behind them, seeing political processes as they develop, and being prepared for them—there is no working in the Foreign Ministry today without these qualities.

### **Estonian Foreign Minister on Mission**

91UF0383A Tallinn PAEVALEHT in Estonian  
13 Nov 90 p 1

[Article by P. Kala: "Estonia's Foreign Policy Is Not a 100-Meter Sprint"]

[Text] The foreign ministries of the Republic of Estonia and Great Britain will proceed from the concept of a transitional period adopted by our Supreme Soviet as a basis for developing future relations between them. This was emphasized by EV [Republic of Estonia's] Foreign Minister Lennart Meri at the press conference yesterday morning held at Toompea that was dedicated to his recently completed working visit to London and Paris.

Our concept of a transitional period is unique in the annals of international law. According to the minister, however, it was well received in London. Based on this concept an agreement was reached, in principle, to exchange delegations representing the interests of both states, with locations in London and in Tallinn. Estonia will also be given an opportunity to use the help of British experts in solving problems pertaining to international law.

In the course of his visit, Foreign Minister Meri explained to the British politicians the need for Estonia, Latvia and Lithuania to join in the Helsinki process. Namely, a definitive stand of the Western states supporting the Baltic states' participation in the European security and cooperation negotiations is bound to have a positive effect on our relations with Moscow.

Significant, according to Lennart Meri, is also the fact that the British Foreign Ministry, and the British political public were made aware of the necessity to separate western economic aid to the Baltic states from that given to the Soviet Union. Foreign Minister Meri also reminded his audiences in both London and Paris that the Soviet Union has no mandate to speak on behalf of the Baltic states. It is especially relevant to emphasize this in connection with preparations for the treaty that is to reduce both conventional arms and the military presence in Europe.

In the course of his visits Lennart Meri also explained to the politicians of both Britain and France his understanding of the processes taking place in the Soviet

Union. The minister said he repudiated the theory of the so-called domino effect that, according to wide-spread opinion in the West, would follow after the Baltic states become independent.

Foreign Minister Meri emphasized repeatedly throughout his press conference that achieving independence for Estonia is a process. "Our foreign policy that is, for all practical purposes, restoring the independent Republic of Estonia is a process that has begun and that will never stop. Today, we are not the same we were yesterday, and tomorrow we hope to be different from what we are today," Lennart Meri said, adding: "In our foreign policy, we are not dealing with 100-meter sprint, nor with the question of who gets to the finish line first."

We know that, last Friday, the Baltic Council resolved that an attempt should be made to add a section dealing with the Baltic states to the treaty now being prepared for limiting conventional arms in Europe. The prospect that this will succeed is, in the words of Lennart Meri, "infinitely bigger than zero." Soviet Union's treaties with the not-yet unified Germany, and subsequently with the reunified Germany, have caused tensions in Europe that are not talked about in the media, but that are there nevertheless. Being aware of these tensions, and taking advantage of them, is an opportunity that we must seize.

Lennart Meri said that he had reached an agreement in Paris according to which *the Foreign Ministry of France has turned its full attention to the matter of Baltic states' participation in the CSCE summit talks, and will resolve it in a manner acceptable to both itself and to us.* Reportedly, several groups from Estonia will be going to Paris. Lennart Meri said that the Foreign Ministry welcomes all efforts in this context. "Everything we Estonians do will advance our cause, provided it is done in harmony. A clear line should also be drawn between different forms of effort, separating that which is assigned to the Foreign Ministry, as the entity representing the state, from the role of social organizations, whose plans and prospects are altogether different," the foreign minister added.

Many passions have flared up over the foreign policy of Estonia lately. According to the foreign minister, foreign policy has become the tool for achieving domestic objectives. "I have not deemed it necessary, nor do I deem it possible to get involved with it. Involvement, in whatever form, would mean sacrificing the unity of foreign policy to domestic interests," Lennart Meri emphasized. To the question about Endel Lippmaa's West-bound activity the minister replied: "Endel Lippmaa has been a good friend of mine for 50 years. The only thing I need to say in this context is that someone should give him a compass pointing precisely due north, so that East and West could also be determined with the same degree of precision."

### Caution Urged in East Europe Relations With USSR, West

91UF0450A Moscow PRAVDA in Russian 7 Feb 91  
Second Edition p 5

[Article by Leonid Kuznetsov: "By No Means Evening"]

[Text] A thick stripe has cut through "People's Republic Street." And written thereupon in the same paint is "Andrassy Street."

Julius Andrassy had a difficult and tortuous career: He participated actively in the revolution of 1848, represented the government of insurgent Hungary in Constantinople, then swore fealty to King Franz-Josef and was foreign minister of Austro-Hungary, advocating close rapprochement with Germany. Russia, however, he considered the enemy. But, being an intelligent and cautious politician, he frequently curbed his emotions and was afraid of exacerbating relations with Petersburg. Thus "Andrassy Street," while taking a person back to the last century, simultaneously helps in an understanding of the present day.

Domestic and foreign policy are indivisible. And, what is more, the first determines the second. About the first (since we have come to speak of those who have recalled the revolutionary count-cum-minister) the British NEW STATESMAN AND SOCIETY wrote as follows: "...The present Hungarian authorities intend at all costs to convert Hungary to capitalism, permitting foreign capital investments and creating a new administrative and entrepreneurial elite here."

Whereas in the pursuit of domestic policy, in the words of one scholar, tackling the task of ensuring in the country the preservation of the system of social relations that exists at a given moment or the introduction of a new system, the state is, even given a clearly expressed opposition, a monopolist, in the international arena it acts, not looking over its shoulder toward some center, as an equal member of the world community, seeking the accomplishment of its goals by way of struggle by diplomatic means, by way of negotiations, agreements, and compromise.

We may currently hear in the East European countries about the fact that it is only quite recently that their foreign policy has been developing normally, for they are now free of the monopoly of the center, that is, Moscow. While not denying, of course, the fact that, on account of a number of factors, Moscow did, indeed, frequently assume the functions of "chief counselor," it should be made clear that what in fact should be understood by "center" and its monopoly is the community of interests that the majority of the members of the socialist community pursued. And some of its members frequently availed themselves of "Moscow's diktat" to achieve their purely national interests. A good acquaintance of mine, the former foreign minister of a socialist country, told me: "We would sometimes go in for some subterfuge—we would announce to Moscow that we intended to embark on this action or the other in the interests of the USSR and would thereupon get the go-ahead and even

support. We were not, it is true, going much against our conscience for ultimately a strengthening of each socialist country was a strengthening of the whole community and, consequently, also the USSR."

But let us leave the past aside. Let us switch to the present "Andrassy Street" and similar ones in other East European capitals. Offices that were occupied by diplomats who had worked in the "Soviet direction," on problems of the Warsaw Pact and CEMA, came to be liberated in many foreign ministries as of the start of the well-known processes. However, even offices do not tolerate a vacuum. Recently Romania alone has established diplomatic relations with Namibia, the Republic of Korea, Ireland, and Qatar. Places of work were needed for those who are to prepare the country's entry into the "Common Market," the European parliament, and NATO even. True to the memory of such politicians as Andrassy, they are devising a strategy of rapid rapprochement with the FRG, France, Italy and, of course, the United States. However, the admirers of the Austro-Hungary minister have run into what they had opposed and what they had hoped to avoid at the new, "free stage"—they are frequently finding themselves not equal partners but trust territories, not subjects but objects with the other side's manifest intentions of interfering in their internal affairs. Take, for example, Yugoslavia. In respect to this country some American politicians (THE WASHINGTON TIMES) are posing the question as follows: how to ensure Yugoslavia's "stable collapse." In turn, the newspaper advises President Bush that he should appoint a special emissary to Yugoslavia who would meet periodically with the leaders of the "new democracies" and representatives of their national minorities, act as an arbitrator in the settlement of conflicts, and report directly to the U.S. President. NATO activity is increasing also. Representatives of the bloc were recently in Prague, where, following high-level negotiations, they heard with immense pleasure from "leading mouths": Europe cannot get by without NATO... NATO is the sole guarantor of security on the continent.

Some people have decided even that the "recoil from the USSR" will signal the start of "an era of complete freedom of maneuver," that is, permissiveness. And we have the former monarch flying into Bucharest, expecting a royal reception. True, he not only was not given the anticipated honors but was asked to leave Romania at once. The newspaper ADEVARUL commented on the visit itself, however, as follows: This confirms the traditional disrespectful attitude of the Hohenzollern royal family toward the Romanian people.

But not everyone views the situation so soberly. Many people are clearly confused. One noticed, for example, the following statement by Hungarian Defense Minister L. Fur: It is essential to clearly recognize that "the price of our independence is the fact that Hungary is left in isolation." In other words, it should now conclude alliances with everyone—"with its neighbors, with NATO, with the devil and the angel."

Such emotions were quite quickly converted into the formulae of some doctrine: Why not be the intermediary between the "fish" and the "fowl"; why not assume the role of bridge between East and West?

A pretty good idea, perhaps—after all, Sudan lays claim to the role of bridge between North and Black Africa. The country performs this role successfully. It is a question of culture here, it is true. In this case the "bridge" is conceived of as being somewhat wider—political, economic, and ideological even. In addition, those who are embarking on its construction are divided into two categories. Some are manifestly sinking "piles" at the right bank, others, demonstrating a sober disposition of mind and spirit, are working on full installation. And both may be recognized by current events. In connection, for example, with the war in the Persian Gulf. Of course, the readiness to make Black Sea resorts available for wounded or weary Americans, the allocation of ships for transportation of cargo of the U.S. armed forces and even the dispatch of soldiers to the area of combat operations (V. Havel, president of the CSFR, exclaimed here, for example: "Possible sacrifices, if there are such, will have been made for a just cause")—these are claims to the construction of a "bridge." However, there is too much of an odor of haggling here. In any event, President Bush, commenting on the "anti-Iraq surge," said that he had asked the IMF about an increase in loans to the East European countries of up to \$5 billion for their support.

If only the building of the "bridge" were confined to just this. But here is a further appeal: for the immediate dispatch of volunteer soldiers. But not to Saudi Arabia, but... the Baltic "for defense of the sovereignty of the republics." It was presented by Bulgaria's opposition Union of Democratic Forces. At approximately this same time a meeting was under way in the Soviet Science and Culture Center in Prague between the Czechoslovak public and representatives of the National Labor Union (NTS) emigre organization and its journal POSSEV. Beneath outwardly calm, constructive proposals and speeches, the participants insistently propounded one thought: beware of the USSR.... R. Redlikh, a member of the journal's editorial board, said: "Today we are seeing one thing: Since 1985 the Soviet Union has been sinking increasingly into chaos. And should we not expect another invasion of East Europe?"

Such warnings are often accompanied by hints at the "unpredictable consequences" connected with the withdrawal of Soviet forces from East Europe. Advice not "to cause needless irritation" is given here—when the "Russian Ivan" leaves, they say, then we will show what we can do. Meanwhile—balm, harmony, and so forth.

So we need to treat guardedly those who are on the "bridge" who are even waving affably at the USSR. One involuntarily recalls the story of how in 1876 Count Sumarokov-Elston went from Petersburg to Vienna with the proposal that it act jointly with Russia against Turkey. J. Andrassy listened closely to his guest and went into the details, but had

meanwhile urgently dispatched a secret mission to Berlin for advice: What to do—would Bismarck support Vienna if it did not accede to Russia's proposal?

And one further point: One has the impression that the "office vacuum" that has come about is being filled at times ambivalently—people are sometimes embarking on foreign matters who are either blinded by nationalism or who have not comprehended the craft of diplomacy with its science, laws, and rules of the game. Being a dilettante is unforgivable here also. How can it be required that Soviet soldiers be herded into freight cars and taken nonstop across Poland or Czechoslovakia! Absurd. Dangerous, what is more. They would do well to at least have remembered J. Andrassy's behest: Do not exacerbate relations with Russia.

Fortunately, the East European world is not without good, intelligent, and thinking people. Many sober-minded politicians, proceeding from purely pragmatic ideas and egotistic considerations at times, believe that it is unprofitable to fall out with the Soviet Union. They are for calm, composed behavior in the international arena. They proceed primarily from the national interests of their countries and believe that if the mission of bridge-building is to be heaped on them, it is necessary to separate what is most important from what is secondary and to pursue a policy of mutually profitable compromise. The Common Market, for example. Its members do not wish to accept the East European countries: backward and poor, they would impoverish France, Germany.... What, then: To abase ourselves? Curry favor? Invite in the NTS? Send soldiers to "Desert Storm?" Would it not be better to attempt to do something within the CEMA framework and somehow adjust relations with the Soviet Union, which at least does not demean human dignity. This was said to me by a Czech, an oil expert, on his way to Tyumen. Should, then, the question of Lithuania be raised in vain?

There is one further exceedingly dangerous aspect here. Yes, an orientation toward the West, Germany included, is the right of any country. And this is natural—such a highly developed power today is truly an enviable partner. But if it is a partner. This is why W. Chrzanowski, law professor and chairman of the Polish Christian-National Association Board, while not rejecting contacts with Germany, calls on the government and parliament to watch closely to ensure that these contacts "be made in the interests of Poland." "Is it an unwarranted fear," the professor wonders, "that the economic initiatives being displayed by the Germans have a concealed political meaning? I mean the buying up of fixed capital and real estate on the pretext of the requirements of this company or the other. And what is interesting is that it is being said that this applies solely and exclusively to Polish territory that before the war belonged to Germany. This must be emphatically opposed." W. Chrzanowski warns against the actions of those who are prepared not only to "merge" with West Europe but also to become "dissolved" therein, which would be to the advantage primarily of "considerable numbers of the

FRG ruling elite." In order to reliably safeguard sovereignty the professor deems it necessary, aside from the development of intrinsic economic potential, "to take advantage of the opportunities afforded Poles by the ample market of the Eastern neighbor."

This trend is gaining momentum, it would seem. And THE NEW YORK TIMES observes to the displeasure of certain circles in the West: "While having recently become democratic, the East European countries have adopted a cautious position in connection with Moscow's repressive measures in respect to the Baltic republics...."

The idea is being repeated increasingly often that the future of Central and East Europe depends, as before, on the Soviet Union to a large extent, if only because of geographical location, not to mention the fact that, aside from an ample market, the eastern neighbor also has powerful resources, energy primarily.

Of course, such approaches are working for the continuation of good constructive relations with the USSR. And this is to the benefit of everyone.

But there are other aspects also. Take just the following. Falling out with the USSR or, for example, China means falling out or, at least, complicating relations also with other countries—their numerous partners. For this reason President I. Iliescu's visit to Beijing is seen as a wise step, as a policy in keeping with the interests primarily of the Romanian people. Until Romania is admitted to the Common Market, until a millionaire who deigns to build a factory is found.... But here are real results.

I would like to dwell on one further point. Consultations of experts of the Hungarian Socialist Party and the CPSU in the sphere of economic policy were held recently in Budapest. Questions connected with the implementation of economic reform in both countries and the prospects of the development of economic relations were discussed. The participants in the meeting took as the basis the experience of party relations here. Yes, the CPSU and the parties that were the governing parties in the East European countries have accumulated the most tremendous experience. It could be, if not the basis, a powerful support in the development under new conditions of both old ties that have given a good account of themselves and new ones along the lines not

only of the economy and trade but also culture, the unions, religion, the youth and the women's movement.

It is not fortuitous that many politicians today, ashamed of themselves at times, are turning to the long-standing practice of the interparty ties of the CPSU and its East European partners. This is, after all, essentially a treasure trove also of a kind of diplomacy and of acrobatics at times for it represents, aside from all else, the diplomacy of ideas and the establishment and building of relations with regard for such subtle matter as national feelings, patriotism, and the struggle against fascism and reactionaries. After all, what was independent of officials of the foreign policy departments was frequently done by the Communists. In addition, all countries without exception suffered much from fascism and lost millions of their best sons! Who would deny that the Communists were the first in the ranks of the fighters against fascism! The experience accumulated here is priceless. In addition, it is pertinent. Essential. After all, reactionaries today are raising their heads not only in the Baltic. Are there not supporters of Antonescu in Romania and Horthy in Hungary?

There also arises in this connection the following question: Is it just, humane and, finally, prudent in the face of possible "lightning from the right" to subject the Communists and forces of the left to persecution?

Yes, an active review of relations with the states of Central and East Europe is under way, with a rejection and movement away from all that is artificial, alien, and dictated by opportunist considerations or the personal ambitions of the leaders of states and foreign policy services. For the sake of rapprochement. We recall V.I. Lenin, who many years ago said in connection with other events: Before uniting, we need to separate.

But is this formula not appropriate when it is a question of relations with the East European countries? We have already separated sufficiently. It is time to unite. On new foundations. And they exist. In addition, what is happening in East Europe is by no means the last day or even, as in the well-known song, evening. It is the start of a new period and new processes and, consequently, new interstate relations.

The USSR proceeds here from an interest in good, sound relations with the countries of East Europe. And we hope for reciprocity.



**Continued Role for CEMA Seen**

91UF0345A Moscow KOMSOMOLSKAYA PRAVDA  
in Russian 11 Jan 91 p 3

[Article by A. Yakushin: "CEMA: No, Not All of It Will Die..."]

[Text] *An idea has to sound crazy to attract attention. This seems to apply to the assertion that prospects look good for economic cooperation by the USSR with the East European countries, but this idea is not crazy at all.*

The seemingly indestructible system of foreign economic ties within the CEMA framework is collapsing before our very eyes. The central link of cooperation—the coordination of national economic plans—has been eliminated, many permanent CEMA commissions have been dissolved because there is no need for them, the size of the council secretariat has been reduced radically, and its main scientific center—the International Institute of Economic Problems of the World Socialist System—is on its last legs, but the main thing is that the established system of economic ties based on production specialization and cooperation is being repudiated.

People now prefer to talk about CEMA in the past tense. Many politicians and economists in the East European countries are saying that foreign economic policy should focus on the West and that ties with the Soviet Union and other "backward" countries should be minimized. In Hungary, for example, they are saying that Hungary must "extricate itself from the Soviet oil and gas pipelines and create a more self-sufficient energy system of its own." Economists in Czechoslovakia are afraid that the Soviet Union will fall apart and are recommending that Czechoslovakia "move away from the sinking ship."

There is no question that the spread of these feelings in recent years has contributed to the cutbacks in trade with the Soviet Union, the reduction of our oil shipments, the rise of world liquid fuel prices, and the dismal prospects for the transfer of foreign trade with the USSR to the normal conditions existing throughout the world—i.e., to world prices and settlements in hard currency. According to preliminary estimates, the Soviet Union's trade with East European states is expected to decrease by around 30 percent in 1991.

It is under the influence of these processes that the East European countries are trying to solve the difficult but extremely important problem of satisfying their economies' need for the fuel and raw materials they once imported from the USSR. After all, until recently the East European countries were importing three-fourths of their liquid fuel and gas from the Soviet Union. Now the situation is changing. Exports of Soviet liquid fuel to East European countries decreased by around 20 percent last year.

The East European countries anticipate radical changes in their own production of energy resources. They will be

mining less coal because of the deterioration of geological mining conditions, the substantial rise in production costs, and the pollution of the environment.

The approach to nuclear power engineering in Eastern Europe will also change radically. Whereas it occupied the central position in the energy policy of the East European countries a relatively short time ago, the program for the establishment of a network of nuclear power plants in this region was revised after several accidents in nuclear plants in the United States and the USSR.

What does all of this mean? The East European countries will have to either reduce their energy consumption dramatically or increase their fuel imports from third countries. Even a strong energy conservation policy, however, will not eliminate the need to increase fuel imports. According to estimates, they will double in the next 5 years. Will the East European countries be able, however, to pay for these shipments?

The events in the Persian Gulf have raised the prices of liquid fuel considerably. Besides this, the East European countries suffered substantial losses when Iraq failed to pay its debts because of the cancellation of contracts and the freeze on export shipments to Kuwait and Iraq. In all, according to Western estimates, the East European countries lost 6.8 billion dollars in 1990 as a result of the events in the Persian Gulf. If the crisis in this region lasts a long time and if oil prices stay high, not all of the East European countries will be able to pay for imports of energy resources in hard currency.

This is a big problem for the East European countries today. To take a place alongside the industrially developed Western countries and avoid becoming Europe's backyard, the countries of Eastern Europe have to quickly perform a colossal amount of work to develop their foreign economic ties. The transition to an open economy, however, is revealing that the export products of the East European countries do not meet the requirements of the world market and that some of them cannot be sold there.

People in the East European countries are relying heavily on perceptible financial support from the Western states, but the West has been in no hurry to do this so far. The quantity of aid it has offered is more likely to produce disillusionment. Perhaps it is still too early. After all, the International Monetary Fund is still drawing up a program of aid to the East European countries and is planning to create a special fund of 9 million dollars for this purpose. It is clear, however, that this amount will not be enough to carry out all plans in their entirety. Besides this, Poland, Hungary, Bulgaria, and other CEMA countries already owe billions to the West.

The shortage of hard currency will force the East European countries to consider all possible sales markets. The first one they will discover is the Soviet market. Our country will attract them, and not only as a supplier of scarce fuel, crude resources, and other materials. There is also the consideration that the economies of the Soviet

Union and the East European countries were closely intermeshed for many years. Therefore, regardless of political events, our economies are still bound together. This is a fact.

The East European countries depend on deliveries of Soviet oil and gas, and our national economy depends to a considerable extent on many of their products. In the middle of the 1980s, equipment from the CEMA countries was used in the production of 40 percent of our canned fruits and vegetables, 30 percent of our sugar and confectionery items, and 15 percent of our dairy products. Deliveries from these countries covered our need for rolling stock by 20 percent, for equipment for the textile industry by 50 percent, for lift trucks by 40 percent, and for agricultural machinery by 15 percent. Besides this, there were the Hungarian "Icaruses," the streetcars and trolleybuses from the CSFR, the railroad cars from the GDR, the ships from Poland....

Of course, the transition to world prices and payment in hard currency will change many aspects of the East European countries' economic ties with the USSR. Whereas they once were able to sell the Soviet Union "questionable" products (which no one would buy in the West because of their inferior quality), and at prices exceeding world prices, now this will be impossible.

Another massive obstacle to our new relations is the shortage (or absence) of hard currency in enterprise funds. Clearing operations cannot be allowed, because these would essentially represent a repetition of the completely discredited system of settlements in CEMA, which led to its collapse.

In the atmosphere of a free market, we could have a system in which most settlements would be made in hard currency, but part of our exports (of oil, for example) would be sent to East European countries in exchange for deliveries of some goods at world prices within a specific time period. The volumes of these reciprocal shipments would gradually decrease, so that the "natural" exchange of products would stop at the end of the agreed period. This settlement procedure would be of some help, in my opinion, in stabilizing the economic situation in the East European countries, and it would certainly lessen the pain of the severance of commercial ties with the Soviet Union. After all, if we want to bridge the economic and technical gap separating us from the Western countries as quickly as possible, we should catch up with them together, because a market of former CEMA partners could run this race more effectively.

Therefore, however paradoxical this might sound today, a new round of economic interaction by the Soviet Union with the East European countries is quite possible. Furthermore, because the prevailing consideration will be mutual advantage rather than ideological postulates, there is the hope that it will be successful.

### **Future of International Bank for Economic Cooperation Discussed**

*91UF0032A Moscow PRAVDA in Russian 18 Sep 90  
Second Edition p 5*

[Interview with Gerhard Schmitz, member of IBEC board, by correspondent V. Sharov: "Goodbye, Transferable Ruble..."]

[Text] **At the end of July the president of the USSR signed an ukase putting an end to a practice of many years' standing in Soviet trade with the CEMA countries.**

The term "transferable ruble" entered our political and economic vocabulary more than a quarter of a century ago. This was the name for a monetary unit, the means of payment used in the mutual settlements of the countries belonging to the Council for Mutual Economic Assistance. The CEMA members set the gold content of the transferable ruble at 0.987412 grams of pure gold. This monetary unit, however, never took the form of any kind of specific object, such as a banknote. Settlements and credit operations in transferable rubles were accomplished through the International Bank for Economic Cooperation (IBEC).

Now one of the important and intricate aspects of interaction is coming to an end. The ukase instructed the USSR Council of Ministers to secure a transition to settlements at world prices and in hard currency in economic relations with the CEMA countries on 1 January 1991. Shortly before that, USSR Gosbank sent out an official announcement that the Soviet Union would withdraw from the system of multilateral settlements in transferable rubles on 1 January next year.

Many readers have asked for an explanation of the purpose of these changes and a more detailed description of the transferable ruble and IBEC. The bank administrators kindly agreed to answer the readers' questions. Board member Gerhard Schmitz received a PRAVDA correspondent in the bank, which recently moved to a new modern building on Novokirovskiy Prospekt.

[Sharov] What was the reaction to the Soviet decision in the CEMA countries?

[Schmitz] They were not surprised. Back in January, at the 45th CEMA Session, the countries essentially acknowledged the need for a transition to mutual relations based on market principles, and this presupposes trade at world prices and settlements in hard currency.

[Sharov] Various publications have suggested that the transferable ruble is connected with many of the problems in our exports and imports and our economy as a whole....

[Schmitz] It is true that recently there has been a great deal of criticism—some valid and some not—of the system of multilateral settlements in transferable rubles, of the transferable ruble itself, and of our bank. For a better understanding of all this, we have to look back into the past.

Before the 1960s mutual trade was the main element of the foreign economic ties between CEMA states. Accounts were settled by means of bilateral clearing operations—this is the name for the system of cashless settlements based on reciprocal deliveries of goods. By the beginning of the 1960s the interaction of CEMA countries had approached a new level—economic integration. This required a more appropriate monetary system, and in October 1963 the governments of the CEMA countries signed an agreement on multilateral settlements in transferable rubles and on the organization of the International Bank for Economic Cooperation.

The new payment and credit system was instituted at a time when the national economy in each of our countries and the ties between them were based on strict centralized planning. Trade was conducted on the basis of bilateral 5-year agreements and annual protocols stipulating the exact content of export and import shipments. Orders were filled by state foreign trade organizations. Settlements in transferable rubles served this system of foreign trade efficiently.

The bank also had another function—extending credit to those with a negative balance of payments at the end of the year or in current operations. The total amount was as much as 18 billion transferable rubles a year in recent years—around 5 percent of total turnover on the average.

[Sharov] But are the critics of this system of settlements not right when they say, for example, that the transferable ruble did not deserve to be called the collective currency of the CEMA countries because it was only used in bilateral relations? After earning transferable rubles in the Hungarian market, for example, a partner could not use them in trade with the GDR or other countries....

[Schmitz] But this does not contradict my statement; it merely corroborates it: Any system of settlements reflects a certain level of economic development and mutual ties.

[Sharov] Some people have said that the system of settlements in transferable rubles was ruinous for the USSR. According to some estimates, our country will save from 12 billion to 16 billion dollars a year by making the transition to hard currency.

[Schmitz] I cannot comment on your estimate. We have not made any such calculations. It seems to me, however, that observations of this kind are somewhat biased.

We must not forget that the USSR did give its allies internationalist support for many years. This was done in order to strengthen the position of the socialist world. This is how it was seen at that time and this was the opinion at that time.

In general, the roots of many problems can be found in politics, and not in the transferable ruble or the system of settlements based on it. Think back to the time when the world economy was seized by the energy crisis in the

1970s. This led to a significant rise in the prices of energy resources, and the main supplier of these to the CEMA countries was and is the USSR. At that time the Soviet Government made concessions to many CEMA partners. They were extended intergovernmental credit to help them surmount their difficulties. Soviet foreign trade organizations simultaneously relaxed their restrictions on the prices of incoming goods. As a result, the most dynamic increases in our group were in the prices of machine-building products and consumer goods. Even today these prices are two or three times as high as world prices, and even four times as high for some items. Politics, as you can see, had much to do with this.

The very principle of pricing in the trade of CEMA countries needs objective evaluation. Average world prices over the last 5 years were the basis. This was supposed to guard us against the temporary fluctuations in the world market. What actually happened was that the USSR or another CEMA country sometimes sold goods at prices exceeding world prices and sometimes sold them at prices below world prices. For this reason, the categorical statement that the Soviet Union behaved like a kind uncle, that the cost of goods distributed to other countries was covered only by its budget and came out of the pockets of only the workers in the USSR, is not true.

[Sharov] Many publications are distinguished by euphoria: As soon as we make the move to settlements in hard currency, vast rivers of long-awaited and high-quality goods will flow into our country.

[Schmitz] This is an illusion, of course. It is engendered by the naive assumption that the USSR will sell oil and gas to CEMA countries for hard currency and then use this money to buy machine tools from England, video-cassette recorders from Japan, footwear from Italy, and food from France.

First of all, a system of economic ties and cooperation already exists and is operating. Dozens of plants in CEMA countries, for example, are working for the Volga Motor Vehicle Plant. Should we allow relations with them to be severed? There are hundreds and hundreds of examples of this kind. We are interrelated and interdependent. Second, if the East European countries will not be able to sell their goods to the USSR, they will buy less oil and gas from the USSR.

[Sharov] Journalists who were experts in this field once liked to compare the transferable ruble to the collective currency of the European Economic Community. Now we are saying goodbye to the transferable ruble. Is there any chance of a new collective CEMA currency?

[Schmitz] I do not think so. We are participating in the construction of the "common European home." The development of East-West relations will eliminate the need to create some kind of special, exclusively Eastern zone for the effective use of our own currency.

[Sharov] Does your bank have a future?



[Schmitz] In other words, you want to know if the money it cost to put up our new building was wasted. I am certain it was not. We will still be performing our main function under the new conditions: promoting comprehensive economic and monetary cooperation by CEMA members and their effective participation in the Europe-wide process.

IBEC has accumulated considerable experience in conducting operations in convertible currency. Last year was a good example. Bank operations in hard currency exceeded operations in transferable rubles and amounted to around 530 billion dollars. Our main areas of emphasis were assistance in the development of the foreign economic relations of IBEC members, the intensification of commercial cooperation with Western banks, and the further augmentation of the profitability of operations. Our remaining assets in hard currency at the end of the year totaled 3.1 billion dollars.

Operations with securities were expanded in 1989. IBEC began conducting new types of operations. Correspondent relations with 500 banks in the world were expanded and intensified. IBEC profits rose by 10.9 percent and amounted to 38.7 million transferable rubles.

By a decision of the IBEC Council, its highest administrative body, a conference of experts was held recently in Moscow to discuss bank operations under the new conditions. The conference supported the transition to the system of settlements in hard currency and advised that our bank retain its status. The emphasis will be transferred to contacts with banks, joint ventures, and large labor collectives. The conference proposed that the bank retain its capital and its own assets, totaling around 380 billion dollars in hard currency today, after the reorganization of our operations. We are a recognized partner in international operations, and it is our job to strengthen IBEC's position.

### Role of Foreign Trade in Soviet Economy Evaluated

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SSSR: SERIYA EKONOMICHESKAYA in Russian  
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[Article by I. S. Korolev: "Principles and Criteria of Development of Foreign Economic Ties"<sup>1</sup>]

[Text] The article questions the traditional approaches to utilizing foreign economic ties. It substantiates the need to give greater attention to issues of substitutions for imports and refuse to discriminate against the domestic market as compared to the foreign market and presents forms of organization of foreign economic ties.

Today everyone is dissatisfied with the system of state regulation of foreign economic ties, although for different reasons. Enterprises and territories complain about the licensing system for exports, which in their opinion limits and even nullifies opportunities to set up business ties with the outside world, about shortcomings in the established procedure and in the norms for obtaining currency deductions for exports, about the difficulties in spending hard currency earned, about the lack of help from the center, and so on. The central foreign economic departments emphasize the incompetence of the new participants in foreign economic ties, which leads to overpayments for imports, competition among Soviet exporters, the sale of goods at dumping prices, and the like. For the most part these accusations are, unfortunately, justified.

The aggravation of foreign economic contradictions between the center and the republics results in additional difficulties, and there is a danger that the USSR unified customs territory will disintegrate. Even individual oblasts and cities are rushing into the "customs" war.

However, in my opinion, the present situation in the area of foreign economic ties, especially from the standpoint of utilizing foreign currency for imports, is for the most part no worse than the situation, for example, in the 1960s-1970s or the first half of the 1980s. In that period of stricter centralization of imports than now, one could cite a considerable number of examples of extremely unsuccessful large-scale import deals, both from the standpoint of utilizing market conditions and for developing particular sectors (the light, chemical, cellulose and paper, and other sectors) of the economy. We were not able to efficiently handle those tens of billions of additional dollars which our country received from exporting oil as a result of the repeated rise in world prices for it in 1974-1982.

The main shortcoming in the development of our foreign economic ties after 1986 is, in my opinion, that the very role of these ties is not changing and their stimulating impact on our domestic economy is not evident.

For us the traditional role of foreign economic ties is to obtain scarce products or those goods which we ourselves are unable to produce. For us exports are merely a means of earning hard currency needed for imports. As a rule, exports are fairly burdensome for the country as a whole, for the sector, and for the individual enterprise. Unlike all other states whose enterprises and firms are involved in selling on the world market, for us exports are compulsory in nature. In a number of cases we sell at any price, with any production outlays, just to obtain the hard currency which we must have. And this situation is still not changing.

One more negative phenomenon is observed with the appearance of enterprises on the foreign market. Enterprises sell in order to buy products abroad themselves; that is, the usual pseudomarket motivation operates, no longer just within the country but within the enterprise as well. The fragmentation of our economy is increased. Very often we export goods, especially industrial consumer goods (automobiles, refrigerators, televisions, petroleum products), when there is an acute shortage of those products on the domestic market. Our enterprises seem to produce output under the lash; their plan (state order), the desire to receive the scarce goods they need in exchange for their own output, and the like impel them to do this. Foreign economic ties are not improving this situation. And until there is incentive to produce for the domestic market, our enterprises will not learn to work on the world market and the effectiveness of foreign economic ties for the economy will be low.

In the transitional period two underlying conditions seem important.

First: full reorientation of the traditional approach to foreign economic ties and their redirection above all to stimulating the domestic market; which presupposes both extensive utilization of foreign competition and protection of particular promising sectors of industry and agriculture and a policy of substitutions for imports in order to form the contemporary elements of a market in the country and ensure optimal conditions for inclusion of the national economy in the world economy.

Second: the need (because of our low ability to compete internationally) to preserve strict state regulation. This regulation, however, should differ fundamentally from a foreign trade monopoly. Among other things, it is important to separate governmental functions and commercial activity completely, ensure the equality of all subjects of foreign economic ties in relation to the norms of this regulation, change to the generally accepted foreign economic instruments (a currency exchange rate, customs duties, taxes and fixed charges for a specific service, tax benefits, interest rates on hard currency loans, quantitative licensing of exports and imports and standards, and the like).

Of course, this means that the unified foreign economic policy and the unified customs territory of the USSR are to be preserved. Otherwise, the Union will have fewer rights in the area of foreign economic ties than an

international organ such as the European Community Commission. But if the plans to change interrepublic accounts to a world price basis are realized, then the Union will risk becoming a new CEMA with all the costs of that organization.

Adoption of the two conditions outlined above requires that the approaches which have become traditionally established in our country in practically all components of foreign economic ties be revised. Let us examine only three groups of issues: 1) the rate and proportions of foreign economic turnover, 2) management and organization of foreign economic ties, 3) attraction of foreign investments.

### **The Rate and Proportions**

The traditional and, I would even say, official approach to developing foreign economic ties, where the goal of increasing the rate of expansion of foreign economic turnover and increasing its proportion in social product is made paramount, needs to be changed fundamentally.

This approach seems very questionable, since the growth in the volume of foreign trade is not equal to the increase in its real return to the economy. From the standpoint of the impact on the domestic balances of capital investments and work force, as well as on the condition of foreign accounts, even the scenario of a certain reduction in the volume of foreign economic ties could be fully acceptable.

In light of this, we must bear in mind that in terms of an indicator like the export quota (the proportion of exports in GNP), we are at approximately the same level as the United States. However, even so we must bear in mind two circumstances. First, more than 60 percent of our exports are deliveries to the CEMA countries. Some of them are hard currency goods which are fully competitive on the world market. But a substantial part of the deliveries there (especially of finished items) is possible only because of the clearing system of accounts within the CEMA framework. With the transition to accounts with these countries in convertible currency, our exports there (and imports from there) will be reduced. Secondly, the basis of our exports in free currency is made up of goods (above all oil) whose export volumes we simply cannot continue to increase. Moreover, it is becoming more and more difficult to maintain the current volume of fuel-raw material exports. Hypothetical calculations show that even if we sharply increase the export of processed products (which is very difficult in practice because of a whole number of domestic and foreign restrictions), even that will not accelerate the dynamics of exports.

Of course, in the long-term perspective the need to improve the structure of exports, which includes increasing many times over the sale of finished items, in particular machines and equipment, is beyond a doubt. However, making this goal the main one for the transitional period is hardly justified. Moreover, the condition of our economy and the equipment we use are such that increasing the degree of processing of export output in present conditions is not always profitable for us. And the point is not the level of our

domestic prices. The clearest example, known for a long time already, is a comparison of foreign trade prices for the oil and petroleum products we export. This comparison shows that for the expenditures to process the petroleum products we export (2 billion rubles) and the environmental pollution which occurs in doing so, we receive practically no additional hard currency. But oil is no exception. If we compare our export prices with competitors' prices for a series of many different items contingent upon the level of processing, it turns out that the gap is not in our favor as the increased degree of processing rises. This is a result of low labor productivity in our country, poor technology, and the gap in the quality of output produced.

With the present condition of our economy, exchanging raw materials for finished output unfortunately provides the greatest effect from the standpoint of conserving labor resources and capital investments. Of course, in the future we must try to change this situation, but this problem will be resolved gradually as structural changes are made in the economy.

The main reserves for increasing earnings in the transitional period involve increasing the degree of processing of raw material output, improving its quality, and being competent and flexible in using world market conditions. In a whole number of directions of raw material exports (timber, petroleum and petroleum products, gold, diamonds, and others), proposals by specialists have been in existence for more than one decade on possible ways to increase currency receipts without drawing additional raw material resources into turnover. Conditions must be provided for realizing these proposals.

Of course, even now intensive efforts must be made to develop exports in the manufacturing industry, in particular in machine building. The indicator of export rate of output must be one of the main indicators of the work of a sector or an enterprise. But we certainly cannot count on a rapid large-scale return in hard currency here. In this stage we can speak above all only of seeking niches and securing certain types of finished output on world markets, including science-intensive output. And, this process may temporarily involve certain costs for us.

But an unrealistic approach to determining the rate and structure of foreign economic ties has serious negative consequences in practice, in particular for current planning, if export assignments are raised, for example. Thus, by allowing the practice of parallel export plans, we thereby insert a shortage in export-import plans which are balanced only on paper.

### **The Correlation of Export Orientation and Import Substitutions**

It seems that in both our theoretical and in our practical approaches to developing foreign economic ties, too little attention is devoted to import substitutions. Given the present condition of the Soviet economy and its extreme unbalance, import substitutions may provide a relatively faster effect for developing the domestic market, increasing the competitiveness of output, and

improving the living standard of the population; that is, they may help resolve the problems which are important to our integration in the world economy. Naturally, as the domestic market becomes saturated, the export orientation in the development of the Soviet economy will become stronger.

A certain emphasis toward import substitutions is important both from the standpoint of the prospects of the condition of foreign accounts and in order to increase the national economic effectiveness of foreign economic ties. A paradoxical situation has taken shape in our country where we have more and more difficulty carrying out exports in order to pay for the increasing imports of goods which we can and should produce ourselves (above all grain, oil-producing plants, sugar, a whole number of industrial semi-manufactures, and meat). Of course, in many cases they are forced imports and it is difficult to reduce them. But imagine which is easier: reducing the imports of grain, by half let us say, or increasing exports in freely convertible currency by this same amount? From the standpoint of the country's objective conditions, they are incompatible things, of course.

The policy of import substitutions does not mean returning to an autarky and trying to produce all necessary goods only through our own efforts, even with extra costs. Yes, strictly speaking, at the moment we do not have such a desire. Just the opposite in fact.

A policy of import substitutions in the transitional period will mean above all changing import priorities and concentrating them in the directions which are most important to us.

Two main directions are apparent here. From the standpoint of increasing yield for the economy, it would be a good idea to increase the proportion of final product in the economy, and that includes the proportion of consumer goods.

At the same time, however, we are interested in increasing imports in order to retool Soviet machine building, that is, imports in order to set up contemporary production of the means of production. This is also necessary in order to reconstruct our construction base and the entire investment complex.

Primary development of these two directions is possible only by reducing imports of raw materials, semimanufactures, and certain types of technological equipment.

This perestroika of the structure of imports is not yet apparent in fact. One gets the impression that we continue to skate on the import track which was beaten down in the 1960s-1970s.

At the same time, however, with the sharp structural changes which are inevitable in the near future and in the medium term, the foreign economic sphere could fulfill the role of buffer for the economy to alleviate possible negative consequences of structural maneuvering. An example of possible use of this sphere is in the conversion of military industry. It seems that in many cases it would be more

rational to export raw material resources liberated when military production is stopped or reduced and buy necessary consumer items with the currency earned, rather than direct those resources completely to producing consumer goods. We would thereby avoid the danger where conversion leads to production of consumer goods, first, with very high costs, and second, production of goods which the population does not need. And finally, we would gain time which we could use to carry out deeper conversion which would ensure efficient production of the essential types of equipment for civilian sectors and consumer goods in the future. The problem of conversion is even more complicated if we are going to sustain exports in military sectors.

It seems that the optimal combination of export orientation and import substitutions (with consideration of the capacity, needs, and resources of the Soviet market) will allow us to join the world economy less painfully and more naturally. As world experience shows, models for joining the world economy can be different. Elements of import substitutions existed in these models to a greater (Japan and South Korea) or lesser (India and Brazil) degree, depending on the particular conditions of the countries. A policy of protecting domestic industry and agriculture from foreign competition was (and is) correspondingly followed.

#### Some Questions of Management

The mechanism of management of foreign economic activity is supposed to combine national economic goals of developing foreign economic ties (above all increasing their effectiveness) with the interests of the direct participants (associations or enterprises) and the interests of economic development of the territories.

Changing to primarily economic methods of management does not reduce but rather increases the demands on those methods of management which are determined centrally: the procedure for issuing authorizations (licenses) to enterprises and organizations to carry out export-import transactions, establishment of quotas and contingents, formulation of the requirements for standards for imported and exported output, and the like.

The creation of a coordinated system of state regulation of foreign economic ties is complicated by the underdeveloped nature of the economic mechanism for enterprises and the different interpretations of the essence and forms of economic independence of territories. Here we must bear in mind that the regulation of foreign economic ties has a significant feature as compared to general economic regulation. Many elements of foreign economic norms are objects of negotiations with foreign countries and international economic organizations. It is more advantageous for the USSR to act as one entity in these negotiations.

Recently attempts have been made to improve the system of norms for regulating foreign economic ties with due regard for the interests of all parties: the enterprises, the particular territory where the enterprise operates (settlement, city, or rayon), the republics, and the entire Union. However, it is unrealistic to create an

integrated system of economic instruments for regulation in the foreign economic sphere without a smooth-running general economic mechanism. There can only be some kind of transitional model. In these conditions, the continuity of measures being introduced and consideration of conditions for changing them which really exist are of primary importance. Here any haste to adopt decisions, especially with unclear or contradictory consequences, is intolerable. But now a whole avalanche of decrees is being hurled down on the participants in foreign economic ties. Many of them are adopted without consideration of the various points of view which exist. More than one example can be cited here.

Among other things, there is certainly a danger of confusing concepts and priorities on an issue like the convertibility of the ruble, in my opinion. Of course, in the long term the transition to convertibility is beyond a doubt. But today the task of stabilizing domestic currency circulation and reestablishing trust in the ruble is more pressing. World practice shows that countries introduce convertible currency after they have adjusted to the conditions of the world market. For example, according to IMF [International Monetary Fund] classification, South Korea's currency is not convertible. But compared with a country like South Korea, what we must do is establish not the conditions but the preconditions for convertibility.

We must now introduce measures which in principle will conflict with the long-term course toward convertibility (although we do not always recognize that). Among those measures, for example, are utilizing the principle of currency self-support [samookupayemost], providing currency deductions for exports, and permitting foreign exchange currency (in the form of foreign exchange rubles) to be used in accounts in domestic trade.

Currency deductions, on the one hand, stimulate involvement in exports, and, on the other, help separate foreign economic ties from the economy and help create a kind of export enclave. The practice of currency deductions exists only in socialist countries. Given the strict currency restrictions after WWII, export enterprises of the Western European countries and Japan surrendered all hard currency from exports to the state. In our day the developed states carry out a large part of their exports in their national currencies. The developing countries where currency deductions exist as a rule turn over all export receipts. In conditions of the Soviet economy, the system of currency deductions discriminates against the domestic market even more as compared to the foreign market.

In my opinion, a choice must be made: either reject currency deductions altogether and stimulate exports through a lower exchange rate for the ruble, tax benefits, and the like; or expand the system of domestic deals for foreign currency which already exists to include those enterprises, organizations, and kolkhozes which produce high-quality (from the standpoint of the world market) goods and services, and not only for export but also for the domestic consumer. The first version would be more

natural for a normal economy, of course. But for us the second version may be more acceptable now—above all as a stimulator of the domestic market and import substitutions. Using this type of operations, many enterprises will be able to earn hard currency by supplying goods to Soviet enterprises. And, prices in hard currency should not be high but quality standards should be, since the holder of the hard currency will have a choice of where to buy—from Soviet enterprises or abroad.

From the standpoint of technique, accounting could be carried out in special accounts of state or other Soviet banks, in foreign currency or in foreign exchange rubles. Such a system would have the advantage over the well-known "Berezka" [foreign currency store] in the sense that any organization or any enterprise which produces competitive goods could earn hard currency in this way. This system would be a good school for our enterprises to understand the demands of commerce and the market. The example of the unsuccessful policy of partially paying kolkhozes for above-plan deliveries of grain in hard currency shows that this system will work only if a branch banking and trade infrastructure is created, on both the wholesale and retail levels; that is, on the condition that any enterprise or kolkhoz (or farmer) can order essential output for hard currency and receive it without any trouble.

A shortcoming of this hard currency commodity market is undermining of trust in the ruble and capital in rubles. Consequently, if decisions are made to develop the domestic market extensively, additional measures must be envisioned to normalize the situation in our money system and to withdraw extra rubles and control the issue of money, which in principle would in itself be in the socioeconomic interests of the country. And, of course, we must bear in mind that withdrawal of hard currency from domestic channels of circulation would be one of the preliminary conditions of convertibility.

Changing the procedure for making decisions in the foreign economic sphere at all levels could be a starting point for improving the situation. The following are necessary to do that:

- providing a legal basis for foreign economic activity, defining the functions for its regulation by the central executive (Union government) and legislative (Supreme Soviet) powers and on the level of the republics and local organs, and ensuring that the interests of the center, on the one hand, and the republics and territories, on the other, are met;
- within the framework of the central executive power limiting and accurately defining the foreign economic functions of Gosplan, MVES [Ministry of Foreign Economic Relations], the Ministry of Finance, and Gosbank and the mechanism of their interaction;
- separating the functions of planning and regulating foreign economic ties from commercial activity.



I would like to dwell on the latter especially. Everyone knows that the USSR Council of Ministers decree of 7 March 1989, which envisions the licensing of a large number of exports and imports, arouses serious complaints on the part of enterprises. But the practice of licensing exists in all countries, including in the most developed ones. I see the following as the shortcomings of our system of state regulation of foreign economic ties. Many departments (including the Ministry of Chemical and Petroleum Refining Industry, the Ministry of the Timber Industry, and others) have the right to issue licenses within the framework of a particular list of goods; these departments are naturally guided by general state and sectorial interests. Almost all organizations involved in issuing licenses themselves (or through the associations under their jurisdiction) carry out foreign trade commercial activity. This combination of functions of regulation and commerce must not be considered normal.

From my point of view, the Union sectorial ministries should be immediately excluded from the process of regulating foreign economic ties. It must be assigned fully to the Ministry of Foreign Economic Relations. This procedure is accepted throughout the world, and it is a natural condition for combining the interests of enterprises and the state. But to do this, the Ministry of Foreign Economic Relations must cease to be involved in commercial activity and cease to be responsible for the export-import plan.

Another thing is important. In order to make correct decisions, a sufficiently large qualified apparatus of several hundred people is needed where each person can competently resolve and bear responsibility for the licensing of export-import operations at his own level, since laws cannot envision all cases. In addition to qualified specialists, sufficient information is also needed here on the general economic situation in the country and the state of affairs in the basic sectors of the domestic economy. It is important not to take decision-making on most issues to the very top, to the USSR Council of Ministers, but to resolve them on the level of the middle link of management.

In conditions of decentralized foreign economic ties and entry into the foreign market by a large number of new economic subjects, the primary task is restructuring the infrastructure of foreign trade and on the basis of the former foreign trade associations creating nondepartmental trade-intermediary firms working strictly on a commission basis.

These intermediary firms (trading houses) with utilization of the most qualified specialists will not receive a monopoly right to a particular sphere of foreign economic activity. Their task is through high specialization and on a competitive basis to provide Soviet enterprises, both producers of export output and importers, with the best (or at least no worse) conditions as compared with conditions offered by foreign firms; that is, to commercially protect the interests of our enterprises on the foreign market. Then the novice enterprises can realize the right of choice without harming either themselves or

the country and carry out exports and imports independently or through an intermediary. So all the participants in foreign economic ties in the system of state regulation will be equal.

The exception is the export of raw material goods which are of state-wide importance (oil, diamonds, nonferrous and precious metals, and timber). Here (at least in the medium term), taking into account the importance of these exports, we cannot do without some form of monopoly or oligopoly (depending on the commodity). Raw material foreign trade corporations set up on the basis of existing foreign trade associations but without departmental affiliation would have large working and fixed capital, warehouse capacities, and in a number of cases transport or even production facilities, and a network of foreign branches. These corporations should obtain a monopoly right (license) to export a particular type of raw material. However, that would not be a return to the former monopoly of the Ministry of Foreign Trade. Maximal utilization of the conditions of the world market will be the corporations' main task. When the existing strict system of quarterly planning is abandoned, the primarily commercial orientation in the activity of these corporations will inevitably affect their relations with Soviet enterprises as well. In order to neutralize the monopoly of concerns and satisfy the interests of producers and owners of raw material resources, a state system of norms of currency deductions like "royalties" will operate.

State support of enterprises which carry out direct foreign economic ties requires special attention. This support has existed and does exist in all countries of the world. For example, in the FRG the Federal Office of Foreign Economic Information (which operates within the framework of the Ministry of Economics) has dozens of qualified correspondents in practically all countries of the world, regularly (five times a week) puts out the newspaper FOREIGN TRADE BULLETIN, periodically publishes manuals and surveys on certain countries and markets, and offers information on opportunities and needs of the foreign and domestic markets. Given our conditions, this state help is even more necessary, since Soviet enterprises know very little of the foreign market.

#### Attraction of Foreign Investments

Joining the world economy (especially using the model of import substitutions) is impossible without large-scale attraction of foreign capital and technology in the form of entrepreneurial investments. These investments could provide an effect even in the medium term and reduce the transitional period of perestroika not only for foreign economic ties but also for the domestic economy as a whole, and that includes the period for introducing market elements of management.

The importance of foreign investments to us goes beyond the bounds of the strictly foreign economic sphere and deserves independent study.

I would merely like to mention one feature. Instead of stimulating the flow of investments (which in itself is a very difficult task for us for many objective reasons—in the

world there is acute competition among the recipient countries to attract capital), we are restricting this flow in actual fact. The view of foreign entrepreneurial investments as selling off national wealth is still widespread.

Our emphasis on only one form of direct investments—joint ventures—is completely unjustified. It is in our interests to attract foreign investments also (and perhaps above all) in the form of 100-percent foreign ownership (registered as a Soviet or legal person or a branch of a foreign company), buying back of existing joint ventures or construction projects, or concessions. The latter could be extended to the broad spectrum of economic activity—from the mining industry to the services industry, the recreation sphere, and others.

However, we continue to reject proposals of foreign firms (including quite respectable ones) to take a particular production facility or enterprise in 100-percent ownership. At the same time, we stubbornly go on creating doubtful joint ventures like the Tobolsk Project, many of whose conditions are essentially variations of traditional compensation deals, including conditions for obtaining credits under the guarantee of the Foreign Economic Bank (that is, at our risk).

The enclave mentality persists relative to the activity of foreign capital in the USSR. Examples are the very questionable, from the standpoint of attracting foreign capital, attempt to focus on so-called "free economic zones"<sup>2</sup> and existing restrictions and bans on economic operations in rubles for joint and foreign companies, and the like.

People often say that the inconvertibility of the Soviet ruble is the main obstacle to attracting foreign investments to the USSR. I think that is not the case. The main obstacle is the same as for the normal operation of Soviet enterprises: the lack of domestic wholesale and currency markets. And here it seems that from our country's standpoint, and the West's standpoint, it would be a good idea to stimulate foreign investments in the sphere of turnover in the USSR—wholesale trade and banking business. Then foreign investors themselves can help create the conditions where they will be able to reinvest the rubles obtained in the USSR and in other spheres which are profitable for them, including export-oriented spheres.

New foreign investments in the form of 100-percent ownership require juridical legalization. A certain step in this direction has been made by the RSFSR Supreme Soviet, but the main obstacles rooted in our domestic laws remain. The corresponding statutes contained in the Law on Ownership in the USSR and the Law on Land cannot be considered acceptable from the standpoint of stimulating the flow of foreign investments.

It would be very important now to have just one or two working enterprises of large foreign or joint production which would demonstrate their particular advantages in practice.

There must be a special governmental organization to attract foreign capital. All countries have these organizations which are interested in foreign investments. In the 1920s we had such an organization—the Committee on Concessions.

Foreign investments will have an effect only if Soviet enterprises can compete as equals with foreign and joint companies. Consequently, the positive effect from attracting foreign capital will be limited without offering Soviet enterprises the same rights in all areas of economic activity, and that includes conditions for hiring work force.

#### Footnotes

1. The basis of this article is the author's report at the USSR Academy of Sciences Problems of World Economics and International Relations Department.

2. The author above all is against attempts to introduce some general scheme of economic zones with an enclave regime of operation (special currency, a customs barrier, and others). Instead, of course, concrete measures of a sectorial and territorial nature are needed to attract foreign capital with due regard for the existing distribution of production forces. Moreover, we often wrongly interpret the role of these zones in China and its specific conditions and opportunities for attracting Chinese capital from abroad. On the whole, the experience for a country such as Brazil has proven to be negative. We obviously must simply expand the rights of all local organs of power to attract foreign capital. This practice exists throughout the world.

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#### Need For Agricultural Imports Decried

91UF0410A Moscow SELSKAYA ZHIZN in Russian  
29 Jan 91 p 2

[Interview with A. Daniltsev, chief of the food product markets sector, Ministry of Foreign Economic Relations All-Union Scientific- Research Design Institute; A. Ivashchenko, chief of the farm product markets department and member of the international Council on Agriculture and Trade Policy, and S. Ivashura, leading scientific associate, conducted by correspondent Yu. Baklanov: "The Market Has Its Own Laws"]

[Text] Over a year ago our newspaper published the interview conducted by correspondent Yu. Baklanov with A. Ivashchenko, associate of the Ministry of Foreign Economic Relations All-Union Scientific- Research Design Institute, entitled "Where Are We Losing Currency?" In the time which has elapsed since that publication, the opinion about the need to introduce market relations has finally been confirmed in our country. But how can we master these relations in practice? Have we learned even a little about trading on the international market? Or are we, as before, losing currency which is in acutely short supply?

Our correspondent posed this question to the chief of the food product markets sector of the Ministry of Foreign Economic Relations All-Union Scientific-Research Design Institute, A. Daniltsev; to the head of the farm product markets department and member of the international Council on Agriculture and Trade Policy, A. Ivashchenko, and to leading scientific associate S. Ivashura. Many of our readers are also interested in the following question: Why is it that, despite a year of record harvest, the purchase of grain from abroad does not decline, and why do we continue to pay American farmers more than we pay our own peasants? Is it not strange that in the period of harvest, equipment stands idle in our fields due to a shortage of fuel, which is sold abroad, while oil dollars and other currency are spent on buying this same grain?

[S. Ivashura] Undoubtedly, the readers of this newspaper are to a certain degree correct in believing that we are helping the American farmers by our huge import of grain. Without us things would probably be tight for them. However, for now it is no easier for us without them. After all, our grain procurements have comprised only 68 million tons. This, of course, is not enough to ensure the flour milling, manufactured feed concentrate, and starch-syrup industries. Therefore, we must buy around 30 million tons of grain abroad. Alas, we are not buying it at the most opportune moment from the standpoint of the market conditions, and therefore we are overpaying. However, this is not the fault of the merchants. They must always wait for the next state decision on purchases, while the prices are constantly climbing.

[Correspondent] It is an old problem. Can it not be resolved to the benefit of the country?

[S. Ivashura] This year it has become even more acute. Since there is no currency, we must make purchases on credit. Here we have no choice. Whoever gives credit, for the most part that is the one from whom we must accept the goods. This year it is still unclear in what volume we will buy grain, and how it will be distributed throughout the country. Nevertheless, it must be transported, handled, and re-loaded. There is serious concern that we will again lose currency not so much on prices as on the idle time of vessels and other problems associated with our undeveloped infrastructure.

[A. Daniltsev] Unless we make some radical transformations in [this infrastructure], we will continue to lose both bread and currency...

[A. Ivashchenko] We must finally learn to rationally utilize fodder grain. We must really develop the production of pre-mixes and vitamins...

[S. Ivashura] That is the problem, that grain is fed to the cattle in pure form, sometimes without any additives at all.

[Correspondent] In Krasnodarsk Kray alone over 1.5 million tons of wheat goes to the feeding trough...

[S. Ivashura] Instead of feeding wheat to the cattle, we could sell it and receive high-protein fodders or corn in return, as we will not be able to get along without these for a long time to come if we do not make some technological breakthroughs in agriculture.

We buy wheat wherever we can. Even in Saudi Arabia! Who will finally answer the rhetorical question: Why is it that 160 million tons of grain is enough for the EEC whose population numbers 340 million people, with 30 million tons left over, while our country with a population of 285 million people cannot make do with the 210-211 million tons which we have been receiving in recent years? And at the same time, in Europe the store shelves are packed with an abundance of food products, while in our country they are empty. All the time we are setting the task of increasing grain production to 240-260 million tons. Evidently, we do not need this amount.

We must learn to gather the harvest, to store and properly utilize it. And then it will turn out that we will have to buy not wheat, but rather extracted soy meal and corn, which we really cannot do without.

[A. Daniltsev] Yes, today we are paying currency for the underdeveloped processing sector. We profess the fixed idea of underproducing agricultural products. Yet let us look at what is really happening. If there is nowhere to store grain and it is always spoiling, that means we are overproducing it, even though this overproduction is structural. If prices were not regulated, then agricultural raw materials would be relatively cheaper, and money would be invested in grain elevators, mills, and manufactured feed concentrate plants, as well as into the production of margarine and other finished products so as to ensure their convenient packaging and reliable transport. The market would begin to formulate not a distorted, but a normal economic structure and to even out normal proportions between production and processing. It would do so by itself, without administrative influence. Although at first this would be painful. Why should we continually stimulate the production of sugar beets if there is no appropriate base for processing this product? Of the 200 sugar processing plants in the Ukraine, 140 were built before the revolution!

I believe that the production of grain, milk and even meat in our country still represents successful and even dynamic sectors. Yet we do not know what the situation will be with potatoes and vegetables. Here the storage base is even worse. We have already bought potatoes in Germany and Poland.

[Correspondent] That is not surprising, since last summer the potato and vegetable growers found themselves almost one-on-one with hardships. If things continue this way, we will have to import cabbage from Europe or China. I am sure that in the Spring we will have to buy planting potatoes abroad.

[A. Daniltsev] The longer we go, the more acute the problems become. The longer we go, the more we will be forced to spend currency on so-called trifles. Just look at what we



have come to: We are buying dried fruits and nuts abroad. These are products which we can produce ourselves.

[Correspondent] I have already had occasion to write about how much hops and beer barley we have to buy for Russian brewers, bringing these products from Australia, England and Germany...

[A. Daniltsev] In my opinion, the import of such "secondary" and yet necessary products will eat up even more currency than it does now if we do not change over to unregulated prices which are capable of regulating the structure of the economy and the goods ratio.

[A. Ivashchenko] If we speak of a full-fledged market, it is possible to achieve under three necessary conditions: Non-regulated prices, convertibility of the ruble, and customs regulation. This is as clear as day.

The market about which we speak in our country is far from being a real market. The state has so greatly disrupted the proportions between domestic and world prices that it is simply unrealistic to seriously think of any competition on the foreign market. We must take world prices as the base, with consideration for national peculiarities. Let me cite several examples of such distortions. Why do we have a shortage of high-protein fodder? Why, because the prices on extracted meal are significantly understated as compared with vegetable oil. The demand for extracted meal in our country is great, but it is not profitable to produce it.

[Correspondent] Throughout the world the price of meat is determined with consideration for the expenditure of fodder necessary for its production. In our country, however, the retail price on beef is set lower than the retail price on broiler hens, despite the fact that cattle raising requires four times more fodder per unit of production than the raising of broilers! In the USA, as we know, broilers are considered to be food for the poor...

[A. Ivashchenko] There are many such incongruities. Someone in the cabinet thinks that the benefit from ginseng grown under artificial conditions is the same as from natural ginseng. And so this person sets an identical price for these two types of medicinal plants. Yet this is absurd! On the world market, the price for a kilogram of wild-growing ginseng fluctuates from \$40,000 to \$100,000, while a kilogram of cultured ginseng costs several times less. There is the market relation for you!

[A. Daniltsev] Of course, in order to enter the world market we must change the level and proportions of prices. But first of all, we must change our world outlook. What is the thinking which still prevails in our country? There is a domestic market, and there is a foreign market, and between them is an iron curtain, and we must stand guard to see that less spills out "over there". As a result, we introduce rigid directive licensing. This is one-sided trade, ignoring the capacities of the foreign market for developing our production.

[Correspondent] Judging by everything, it seems the government of Russia is removing limitations on the export of agricultural produce after the farms have fulfilled their state order and paid the production tax?

[A. Daniltsev] In my opinion, licensing should be urgently replaced with flexible regulation. Each year we may establish an export quota.

[Correspondent] Bulgarian cooperative owners offer to sell the quota from auction. Whoever offers the highest price, that is the one who trades, and this is very profitable for the state.

[A. Daniltsev] We could do that too. We could, as is done in world practice, for example in Brazil with the export of coffee, set a minimal price limit. If the world price falls below this minimal limit, the export automatically ceases. The supply of goods declines, and the market responds to this with an increase in prices. If the price is above the minimal, then the goods are sold without limitations.

There is one other variant—export used to stimulate fulfillment of product deliveries to the foreign market. If you have fulfilled [these deliveries]—you may receive a certificate for export of a certain amount of goods.

[A. Ivashchenko] It is important to note here that the minimal export price is set by the state, and the maximal—by the market. In our country for now it is the other way around. The maximal price is set by the state. This is not regulation, but administration. Yet at the same time, despite the strictness in granting licenses, very often goods are sold abroad at cut-rate dumping prices.

[A. Daniltsev] It is urgent that we learn to trade. A former head of Minvneshtorg [Ministry of Foreign Trade] once uttered the phrase which has become famous: Export is not import. In fact, this is so. To buy goods is much easier than to sell them. Especially with a profit, and moreover on the overstocked Western market. Here we need continuous work and high professionalism. Yet for now there are very few professionals. The level of training of specialists is low even in the foreign trade companies. Because of this, miscalculations and huge losses of currency are inevitable. We are losing out because the goods do not meet generally accepted standards, including packaging standards. We are losing because of our ignorance of customs regulations, and even because of our inability to formulate documents. Sometimes it almost becomes anecdotal: They call from one office—urgently quote us the price for such-and-such goods. What is the hurry? Negotiations are in progress on the other side of the wall, in the next office. We must sign the contract, but we do not know the price. It is sad that this is not an anecdote, but a real fact of our everyday work as consultants.

[Correspondent] Could it really be that nothing has changed, and that the talk of a market remains just talk? What about the organization of exchanges, including those on agricultural goods in Ryazan?...

[A. Ivashchenko] It is very weak. Most probably this is not an exchange, but rather a trade fair. However, we must start somewhere and develop these structures more rapidly—exchanges and auctions, without which we cannot attract capital. And without capital there is no market.

[Correspondent] How can we help those from the rural areas who are starting out?

[A. Daniltsev] They must engage in trade not from time to time, but continuously. If you do not know something, it is better to turn to specialists. I might add that our institute has opened a school of business. The accumulation of knowledge is taking place. There are often cases when they ask not only for information on prices from us, but they ask us to teach them to work with sources of information and rules of marketing.

[A. Ivashchenko] A handbook on estimated prices for agricultural products has already been prepared. Soon two others will be published: On foreign farm equipment, and on equipment for the food and processing industry.

### Details of Fraudulent Oil Deal Examined

91UF0375A Moscow KOMSOMOLSKAYA PRAVDA  
in Russian 18 Jan 91 pp 2-3

[Article by special correspondent Leonid Repin: "How We Made a Gift of \$100,000,000 to the Sharks of Imperialism, or the Consequences of One of 'Soyuznefteksport's' Deals"; all names are as transliterated]

#### [Text] Prologue

Let us try to see what no one else has seen.

It is late autumn 1990, The location is Basel, Switzerland. The official residence of the Finnoil Company. Mr. R. Krening, the head of the company, is deeply engrossed in some business papers just placed on his desk by a clerk. Everything is as usual. And suddenly Mr. Krening's eyebrows start to go up: He has seen something that he evidently had not expected to see. A colossal sum has been transferred into the company's account! It was not a loan, not the earnings from a carefully conceived and faultless deal; it was money transferred for some incomprehensible reason from the Soviet Union.

#### Chapter One,

in which a ghost from the Bermuda triangle appears.

In the latter half of November 1976 it was warm and sunny in Paris, and after the dankness of Moscow it must have seemed like a gift from heaven. Everything was shaping up successfully, and V.Ye. Merkulov, chairman of the All-Union Association for the Export and Import of Petroleum and Petroleum Products [Soyuznefteksport], who had just signed a contract for the delivery of a large quantity of oil, undoubtedly felt just fine.

He was not even distressed by the fact that he had concluded a contract that was in the grossest violation of the existing rules. For example, he did not have the right to sign that contract alone, but he had done so. The holy of holies in any contract had been violated: Prices had not been set before the deal was signed, but would be set much later. There were also violations of other standard documents.

But what are documents! We are not bureaucrats! Business people! And business means initiative.

Neither was Vasilii Yefimovich, who at that time had occupied the top job as chairman of the all-Union association for eight years, disturbed by the fact that the Dzhok Oil Company based in the islands of Bermuda was widely regarded, to put it mildly, as an unreliable partner because two years before that it had with no justification at all refused to pay for petroleum products delivered to it by a Soviet-Belgian joint-stock company and by Soyuznefteksport itself.

And of course, Vasilii Yefimovich also knew about the information tucked away in the dossier entrusted to him by a foreign trade organization, where it was insistently recommended that extreme caution be used when entering into business relations with Dzhok Oil.

#### Chapter Two,

in which currency is transferred from an empty account into an even emptier account, and cunning chess combinations are started.

As is known, Moscow is the capital of an oil state. The oil flows here, not like in Bermuda. About 80 percent of the hard currency coming to us from abroad is derived from the export of petroleum products. So that despite our inexhaustible reserves, we still have to count all the tons of oil.

In Moscow a quite dreadful fact was made known: The most important part of the contract—the payment—was not there, and there was not even any mention of a procedure for opening an account. In other words, no guarantee of payment had been demanded from Dzhok Oil. Now that's trust!

Or was there something else?

Trust is essential in business, but guarantees are needed just the same. The more so since in the Bermuda triangle such dark deeds are sometimes done... And here we have the Soviet side opportunely thinking of this (better late than never!) and asking the company the question point blank: The contract is excellent, but we must add a small amendment so that it is right for everyone, not just the Bermudans.

People of probity work for the company. They agree. True, on one condition—namely, that the unloading documents should be sent to the company circumventing the USSR Foreign Trade Bank [Vneshnetorgbank].

This innocent request made it possible to obtain Soviet oil before payment. And as a result, the promised guarantees of

payment remained in the company safe. They more they struggled to get out, the worse they became enmeshed.

Merkulov gave the order to accept the conditions of the Dzhok Oil Company.

But soon, only six months later, something strange was observed: Soviet oil was being discharged conscientiously and sent on to where it should be, but no one was paying us any money for it. By early June 1977, Dzhok Oil owed us \$84.3 million, and aboard that unsinkable tanker known as Soyuznefteksport there was concern, even nervousness. But the captain, a former front-line fighter, and to judge from everything a man of iron character, kept the wheel in his strong hands and stayed on course.

Merkulov ordered the deliveries to continue.

For about another three weeks we poured our oil away as a gift while the company remained totally silent, and it was only then that the machinery of the foreign trade association slowed down a little. By then Dzhok Oil owed the Soviet side \$101.8 million.

"So when will you pay?" they asked from Moscow in a stern voice.

"Who knows," came the response from Bermuda. "To be honest, we have no money..." "What?!" They grew colder, but were still hopefully holding out their hands there in the capital of a great power.

So... What could we do now? Send the Baltic Fleet to Bermuda? And the Pacific Ocean Fleet too, if necessary? And appoint Comrade Merkulov commander of the joint formation? Force them to give us back our oil.

#### Chapter Three,

in which the hero of the story becomes involved in desperate efforts to somehow save the situation.

A hundred million dollars is, of course, a great deal of money. However, it was not cash. Our oil was in kind. The truth of the matter was that these were our dollars. But we did not have them... Merkulov understood that the wheel of fortune might turn in our direction. He decided to draw a veil over what had caused the damage. It is difficult to believe, but he almost succeeded in doing so.

To start he did what seemed to be impossible: He found a company that agreed to pay what was owed us by Dzhok Oil. Yes, yes, that same \$101.8 million! And to pay it very quickly, all in two years. And do not think that this money was of no concern to the Swiss company Finnoil, or that that was all there was to it for us. Things were much more complicated. First, Soyuznefteksport assigned to Finnoil the right to recover the ill-gotten money from Dzhok Oil despite all the secret phenomena that occur in the Bermuda triangle and cannot be explained by modern science. Second, our resourceful foreign trade association promised to conclude a long-term contract with Finnoil for deliveries of Soviet oil.

And now, perhaps, something even more astonishing than everything above-mentioned: The Swiss company did not have that kind of money and was not about to pay it to us. The operation was simple and clever: With the help of the Swiss company Merkulov created a Save Merkulov Fund. That is, a series of companies—Bomin (in the FRG), Kopeshim (in Switzerland), Trans Oil and Rozhe Oil (in the FRG)—agreed to offer some discount, as they say. Around the world with a thread of gold, and there you have it, a hundred million can be gathered together!

Naturally we are interested in knowing what was in it for this fine company, what its reasons were. Were they really just planning to throw away their money?

That was not their plan. And no one had any intention of squandering the money. And it was not merely a passionate love for Merkulov that induced all these companies to decide to transfer huge sums of money to the Soyuznefteksport account. There is a secret—out of sight, of course, but simple as can be: Soyuznefteksport signed a contract with each of the companies for the delivery of petroleum products on preferential terms. Including deliveries at below world prices. And what a chance: The sum of the concessions came to just short of \$100 million! How lucky! Simply a miracle!

I hope that no doubts remain that business people know how to count money.

#### Chapter Four,

in which capital is received from across the ocean and as a result the situation on the chess board becomes even more complicated.

The dollars collected by the Swiss Finnoil company started to arrive in the Soyuznefteksport account. True, it very quickly became clear that the opportunities of the above-mentioned companies were obviously not enough, and that something else had to be done, and quickly. Mabanaf (in the FRG), Nafta B (Belgium), Tsug (Switzerland), Nafta Mondial (Switzerland), and Feba (the FRG) joined the Save Merkulov Fund. And it went well, things were fine! You can breathe easy, Vasilii Yefimovich.

Alas! these rivers of dollars also dried up. The time came for the next payment, but R. Krening, the head of Finnoil, had nothing with which to pay. He never had had money of his own to pay. However, the financial big wigs and sharks did not want to make trouble for each other, and the American Bank of America promised Krening \$20 million in credit as he had asked.

Of course, it was not all quite so simple: Guarantees and financial security were essential. Although that bank is very distant from us, way across the ocean, obviously the people who work there are not simpletons. And Mr. Krening spread his hands helplessly as he appealed to Merkulov: They are prepared to give credit, but they want something as security...

And Merkulov had it. Look at the office he had! And backed by all that Soviet oil. Not the Shah of Iran or the Sheikh of Kuwait, but nevertheless...

In short, the Nafta B joint-stock company had to offer all its property and fortune as security for the American bank. Do not be surprised at the unheard of generosity of the Belgian company: 99 percent of its capital was Soviet. And it was a subsidiary of Soyuznefteksport. That is to say, Merkulov.

But the day of reckoning was at hand. As is known, debts must be paid, but as before, there was nothing with which to pay. Finnoil failed to get rich in time... Perhaps, too, in the prevailing circumstances, it had not grown accustomed to the Soviet-Belgian company inevitably going bankrupt! With the exception, of course, of those cases in which money would be paid. Indeed, where could they get the money from?... Where to find a kind uncle?

Vasiliy Yefimovich dealt with this difficulty also. A certain Shnapka, owner of the Bomin company, gave \$20 million of his own money to save the foreign Soviet-Belgian joint-stock company. The Americans got their money, Krening could breathe easy, and Merkulov was not worried about anything: He was sending oil to Shnapka on preferential terms, and Shnapka got back his \$20 million, with interest.

To be accurate, he should have gotten it back, but he did not manage to do that; for some reason the privileges were halted. Shnapka went to Moscow but Merkulov had flown the coop—he was now working in another crucial post, and abroad—in Norway. And the new general director of Soyuznefteksport would not himself deal with the blessings promised by Merkulov to Shnapka, and in general had his doubts that Shnapka had rescued the Soviet-Belgian joint-stock company so frivolously not so long before. Or, to be more exact, about anything that the now invulnerable Merkulov had done. It took a great deal of trouble to disentangle this conflict... However, Mr. Shnapka's company was ruined by then.... Amen.

## Chapter Five

in which the living quietly leave the scene unnoticed and, the laws of nature notwithstanding, the dead are brought back to life.

Well, and how was our own Vasiliy Yefimovich getting along over there in Oslo? Everything was just fine for him. And thank God for that. However, the time came to return to the Motherland. On the one hand, it was time for him to be sent on a well-deserved, well-earned vacation. On the other hand, it was time to open a criminal case against him: \$101.8 million was quite a serious loss. Let me remind you that we had given away that ill fated money in the form of preferential deals. And they had paid compensation for the damage done. And let me also remind you that this does not count the interest, to the tune of another \$11.9 million, for the years 1977-1979 that we should also have received. That

money would not have come amiss now, when our entire economy is totally in tatters and totally drained.

There was great reluctance to alarm the former chief of our largest foreign trade enterprise, but it was necessary to conduct a search of his home.

And there, good gracious!... What he did not have! A small supermarket for the leading European powers! During the search of Merkulov's apartment in Moscow they confiscated all kinds of small baubles worth many thousands of rubles: expensive watches and clocks, gold fountain pens and cigarette lighters, cameras and calculators, alcoholic beverages made in the West, and not the cheap stuff, naturally. V.Ye. Merkulov admitted that they were all gifts from foreign partners. From those who were ruined, and those who had grown rich. And since according to our laws, gifts of this kind are must be surrendered to the state, an inventory was made, but they left Vasiliy Yefimovich. But all of this was mere trivia, nothing at all. The search also revealed jewelry worth about R300,000. It must be assumed that Vasiliy Yefimovich had worked really hard to have collected such riches.

True, I do not know how freely he lived: The entire apartment was reminiscent of a neglected warehouse: cans and boxes everywhere, packaging for radio sets—and, of course, none made in Riga.

Serious unpleasantness awaited Merkulov, he was not to be envied. And he would not have seen Paris or Oslo again, or even bustling Moscow, had it not been for a noteworthy holiday—the 70th anniversary of the Great October Socialist Revolution. And to the fanfare of that holiday was added...an amnesty!

“The actions of V.Ye. Merkulov do contain the elements of a crime as set forth in Article 170 Clause 2 of the Russian Soviet Federated Socialist Republic Penal Code.

“Giving due consideration to the fact that V.Ye. Merkulov was a participant in the Great Patriotic War and was awarded orders and medals, under the USSR Supreme Soviet Presidium ukase of 18 June 1987 he is granted amnesty because...he is not subject to criminal liability as defined by the ‘Provisions on Closing Criminal Cases.’ February 1988.”

On his awards: an order, namely an Order of Lenin, and the Order of the Labor Red Banner (twice) for his labor achievements in Soyuznefteksport. Concerning the four orders of the Great Patriotic War second degree, I can say nothing definite. I will add that Vasiliy Yefimovich had good access to Leonid Ilich and, as far as we know, the latter took a lively interest in the not very beautiful story of the \$100 million.

On the jewelry: It was stored in the USSR State Bank [Gosbank], and since the criminal case has now been closed, the owner is demanding its return. I think that it is more likely than not that Vasiliy Yefimovich will receive his treasure.

However, I promised that in this chapter we would have a resurrection of the dead. If you please, raise the curtain!

On the stage stands Dzhok Oil, whom we all thought was resting with the Lord! From the Bermuda triangle comes a weak but quite distinct voice: "Here we are! We want to pay now!"

And what do you think? The money punctually started to arrive! More than half has already been paid, the rest will be paid in installments of \$5 million through November 1999. Of all the things under the sun! Indeed, the Bermuda triangle is an insoluble secret of nature.

#### Chapter Six

in which we could have ended our story were it not for the recognition of a sad circumstance, namely, that a great power still comes off looking like a fool.

Something terrible and improbable is happening: The money that Dzhok Oil is sending to us to compensate for damages caused is being sent by Soyuznefteksport to Mr. R. Krening, that is, to Finnoil! But we are quits! No one should be involved with anything or anyone in our mutual relations with that company!

Yes, it is true that at one time Finnoil agreed to pay us that \$101.8 million, but we also returned it! In the form of preferential terms to the same amount! So what are we paying for now?! It is simply a gift! A personal gift to Mr. Krening.

On 14 July 1990 S. Sitaryan, a deputy chairman of the USSR Council of Ministers, put his official signature to the following: "To USSR Minister of Foreign Economic Relations Comrade Katushev and USSR Minister of Finance Comrade Pavlov.

"I am asking you both to work together to look into a matter that has been hanging over since 1977, and to find common approaches to a resolution of this matter, bearing in mind that the interests of the country must be preserved. Report back to me."

Katushev responded with a letter to the procurator: "Soyuznefteksport is acting correctly."

But you know... The investigation established one thing, but the minister of foreign economic relations, not being familiar with the documents from the investigation, affirms the opposite!

The Land of Fools. And where are you? How would you handle such matters?

In the circumstances I consider it necessary to make a personal appeal to Mr. R. Krening, head of the Finnoil Company, Basel, Switzerland.

Dear Mr. Krening:

Without in any way doubting your probity and your fine business qualities, may I suggest that you return the money received from the Soyuznefteksport All-Union

Association. For it is not your money, Mr. Krening, you did not work for it, and we were too hasty in giving the gift—we cannot afford it. I hope that it was a pure misunderstanding by the Soyuznefteksport managers that this money was sent to you. I am sure you are aware of this and I hope that you reach the only proper decision, namely, to return the money to the Soviet Union, to which it rightly belongs."

#### Recommendations for Effective Use of Foreign Credits Offered

91UF0362A Moscow PRAVITELSTVENNY  
VESTNIK in Russian No 37, Sep 90 p 10

[Article by Soltan Dzarasov, doctor of economic sciences and head of the Political Economy Department of the USSR Academy of Sciences: "When Credit Does Not Hurt"]

[Text] Should we be seeking new Western credits? We began discussing this topic in connection with the present state of the economy and our existing foreign debt and export possibilities by publishing A. Shabalin's article "Should We Accept Loans?" Today we are continuing the debate by presenting the views of Doctor of Economic Sciences Soltan Dzarasov, head of the Political Economy Department of the USSR Academy of Sciences.

Everyone knows that it is easy to take money and extremely difficult to give it away. Credit is also nebulous, because it is valuable in competent hands and ruinous in incompetent ones. For this reason, the acceptance of credit must be preceded by an objective assessment of our ability to manage affairs effectively. Are we the kind of zealous managers who can turn each ruble into two, or do we spend money so inefficiently that we cannot even expect to make half a ruble in the end?... If we are the former, then, as the saying goes, God help us. If we are the latter..., we should give the matter careful consideration.

The issue became particularly relevant after Mitterand and Kohl suggested the offer of 20 billion in credit aid (in dollars) to the USSR. This idea, which won reserved approval in the West, looked like the perfect solution to many of us. A hungry man thinks only about bread, and our imaginations, which have grown used to shortages, can easily visualize caravans carrying a variety of imported goods into our commercial desert.

The people who are inclined to fantasize in this way, however, apparently do not realize that credit is not a good deed, but a way of investing capital, and that it has to be paid back eventually, and with interest. After the food has been eaten, the clothes have been worn, and the furniture, video equipment, and other goods have been bought, it will be time to cover their cost plus interest. With what? No, this is not a way of gaining financial security and saving perestroika, as some people imagine. We will only tighten the noose around our own necks and pass our debts down to our children and grandchildren. We need the kind of perestroika which will allow us to work and live better.



In short, it is senseless to throw valuable seeds on rocky soil. This will not produce a harvest, and the seeds will be lost in vain. We must act in the same way as a zealous peasant. To get a good harvest, he begins by carefully preparing the soil. The transition of the economy to a market basis, the development of the spirit of free enterprise, and the institution of the mechanism of market competition are essential—this is clear today—for the effective use of internal and external factors of economic growth. Outside the framework of a real market economy, Western credits will only hurt us and cannot benefit us at all. They will make no difference, but they will have to be repaid anyway. There is one illustration that is more eloquent than a whole stream of words: If we have a real market economy, capital will be drawn to it, and if this attraction does not exist, it will mean that we have no market.

I certainly am not suggesting that we refuse the credit and then sit back and do nothing. On the contrary, I am suggesting that international credit be used as an important means of accelerating the Soviet economy's transition to the market. How? By putting the emphasis on the **financial responsibility of the immediate recipients of the loans**. The functions of the state must be separated from the functions of state, cooperative, and private enterprises. We must abandon our earlier practice of addressing credits anonymously "to grandfather in the country"—i.e., to the state, which then distributed them at its own discretion and with no personal responsibility.

The state should, of course, oversee the acquisition and use of foreign loans, and it should also assume limited financial responsibility as the guarantor of their repayment. The main responsibility for the repayment of credits, however, should be transferred to the direct recipients, and their interrelations with the state should be defined precisely. This is one of the state's obligations. Another is the creation of favorable conditions for foreign economic operations by all economic links (state enterprises, public organizations, cooperatives, and private individuals).

To this end, the Soviet leadership and the leadership of the union republics should, in our opinion, negotiate political and financial guarantees with Western governments to cover the extension and use of international credits. We are proceeding from the assumption that the West will be just as interested as the USSR in their effective use and timely repayment, and that both sides should therefore guarantee each other the specific conditions making the repayment of the credit possible.

Laws should define the financial and administrative-legal responsibility for the use of credits by state, cooperative, and private enterprises. On the one hand, they should be secured by collateral (land, buildings, stocks, cash, etc.), with serious penalties for the specific group of officials personally responsible for the failure to repay debts. On the other hand, the efficient use of credit should guarantee the people responsible sizable financial rewards. In any case, the creditor and borrower should agree on a plan for the efficient use of the loan, including the specific terms and dates of repayment.

International credits, at least in the beginning, should be extended only to enterprises producing export goods, and the percentage of revenues to be used for the repayment of credits should be specified in advance. This procedure will necessitate concerted effort by Soviet and Western business groups to ensure that the USSR can enter the world market and become active in it. This will be a new stage in East-West economic cooperation, and it should be launched in the name of peace and international stability.

The distinctive approach suggested here stems from the fact that **we will simultaneously have to obtain 20 or 30 billion dollars in credit and a comfortable position in the world marketplace**. The credits will not do any good if they are used to patch up the holes in a worn-out economy. They will disappear into the black hole of our mismanagement, and there will be nothing left to cover the debt. We and the West have no reason to let the USSR get into such a difficult situation.

The West must realize how much it has benefited from the Soviet perestroika. The cold war was waged by both sides, by the West as well as the East. If M.S. Gorbachev had escalated the arms race instead of stopping it when he took office, the West would have had to waste additional billions to no purpose, and this is the free gift it received from the Soviet perestroika, not to mention the other social and moral benefits. The triumph of the new thinking, the idea that the world is whole and indivisible, presupposes the acknowledgement that the Soviet Union cannot remain isolated and must become an organic part of the world economy. This, however, means that it has to be given a place in the world market commensurate with its economic potential.

The extension of Western credits alone, however, cannot cover the cost of the move from totalitarianism to democracy and from confrontation to cooperation. We will not benefit much from the most-favored-nation status in trade either. For at least the first 10 years, we will need a firm guarantee of proportional Soviet participation in world trade in a specific group of commodities. Besides this, foreign capital will have to participate in the structural modernization of the Soviet economy to enhance its export potential. The extension of credits alone cannot do all of this. The credits should secure the flow of foreign currency into the country and thereby establish the prerequisites for their efficient use and repayment.

The West's willingness to assist the USSR in this way is, in our opinion, more momentous than the Marshall Plan. It was intended to strengthen the existing socioeconomic system in Western Europe, but the object in Eastern Europe is reform.

Obviously, the USSR has to carry out the reform itself and develop the mechanism for the efficient use of intellectual, labor, and natural resources that will allow it to become an equal partner in world trade and the financial sphere. Soviet firms will have to become competitive enough to keep and augment their position in

world trade and contribute to the achievement of ruble convertibility. To this end, the USSR has to plan and implement a new export strategy for increased participation by the USSR in world business and trade. According to my calculations, the West European countries' involvement in the world economy is from five to eight times greater than the Soviet economy's involvement. If exports and foreign currency receipts remain at this level, we will not even be able to pay off old debts, much less new ones.

Our involvement in the world economy must be increased radically, and less by the export of crude resources than by exports of finished goods and services securing a flow of foreign currency into our country. Mere declarations will not be enough. They will have to be backed up by a sound export strategy, which we do not have at this time. Priority should be assigned to economic branches capable of generating foreign currency receipts, so that a reliable basis can be established for a convertible ruble. The conversion of military enterprises for export operations warrants special consideration. If we organize our affairs properly, international credits could be a great help in establishing an efficient export sector.

The absence of a protectionist (export-encouraging) mechanism and strategy makes our position in the world market weak. It is a serious mistake to think that a ban on the export of scarce goods (and everything is scarce in our country) will provide us with a good supply of them. If this were the case, the shortages would have been eliminated long ago. Potential exports must be compared to imports, and this should then serve as the basis for deciding which are more important. Choosing the most important will help in eliminating shortages.

For example, would it be better to sell export vehicles for 2 billion rubles in our country or get 600 million dollars for them in the world market? The figures alone do not tell us anything. It is wrong to think that foreign currency is valuable in itself and that the only important thing is to collect it. Of course, the recipient of foreign currency for goods or services or in the form of credit will have certain opportunities, but the result will depend on how it is used. If the dollars earned from the sale of automobiles are used to buy goods in the world market for resale in the domestic market at, for example, 6 billion rubles (which is quite possible), they will be extremely profitable. Two billion will turn into six with the aid of the world market. If approximately the same final result is achieved by purchasing and incorporating new technology, the impact will be equally impressive.

The fact is, however, that the socialist countries have not been able to achieve this kind of impact. The equipment and technology they bought with foreign currency was not used at the proper time, and even when it was used, the quality of the items produced still did not meet world standards and, consequently, the goods could not generate foreign currency receipts. Furthermore, in view of

their non-convertible national monetary units, the countries reached an impasse in which time worked against them, their debts accumulated, and the interest on the debts rose. Uninstalled imported equipment worth 6 billion dollars is rusting, for example, in the USSR, while the debts are growing. Of course, a convertible ruble will give us new opportunities, but we have not reached that point yet, and the recent plans for the conversion of the ruble at the "blackmarket" rate are, in our opinion, taking us further away from the goal and could create new financial difficulties.

We suggest the thorough recultivation of the domestic soil of our foreign economic operations and the development and introduction of protectionist measures to encourage exports and limit inefficient exports and imports by means of taxes, penalties, and privileges and in other ways. Anything that is inconvenient for the society should be inconvenient for the businessman. With the aid of these measures, we will promote the enhancement of export potential and the attraction of foreign currency. Internal credit should serve the same purpose, paving the way to the world market for Soviet goods and services. The Soviet Union cannot do this on its own, but the move to the new type of international relations, the move from confrontation to cooperation, should help to turn the USSR into an active international partner.

#### **Suggestions for Increasing Hard Currency Earnings Aired**

91UF0005A Moscow *EKONOMIKA I ZHIZN*  
in Russian No 38, Sep 90 p 20

[Article by Yu. Yershov, doctor of economic sciences:  
"Hard Currency Rubicon"]

[Text] *The USSR's hard currency earnings decreased dramatically in recent years for obvious reasons. The country's foreign debt doubled in just 3 years and almost reached the point of 60 billion dollars at today's official rate of exchange. There is not enough time to wait until the market stimuli of domestic exports begin to work. Today the situation with regard to the country's hard currency supply is acquiring catastrophic features. We have reached the point at which decisive measures must be taken. Earning hard currency is high on the list of union and republic priorities.*

Emergency programs for the development of foreign economic relations in the next two or three years must be drawn up without delay as a constituent and integral part of the plans that are being discussed in the country for the redirection of the economy into market channels. The programs should be designed to mobilize all possible sources of export revenue and the use of all resources to economize on imports.

The programs, in our opinion, should be based on a flexible system of rewards for each extra ruble of earned

or saved hard currency. The rewards could be for individual enterprises or the immediate producers personally responsible for the savings or the additional export income. The exact percentage of deductions and the guaranteed possibility of their use should be recorded in special legislation.

### **An Old Horse Does Not Spoil the Plow**

Without denigrating the potential capabilities of domestic machine building or underestimating the capacity of all incentives, including market stimuli, to enhance its competitiveness, we must honestly admit that any appreciable increase in hard currency receipts in the next few years will come primarily from the fuel and raw material sector of the national economy. Today it is the only sector capable of freeing us from the manacles of monetary dependence on foreign countries, which are already around our wrists but have not been locked yet. However much we deplore the emphasis on fuel and raw materials in our foreign economic ties, our country is unlikely to retain its monetary independence in the next few years without it.

Traditional domestic sources of hard currency should be given special attention in these years—the **petroleum and gas industry, the timber and pulp and paper branch, and the extraction of precious and nonferrous metals**. In particular, we should seek out every opportunity to prevent the further decline of oil production and restore and maintain its export potential, even if it requires the immediate, but potentially quickly recoupable, expenditure of hard currency on the purchase of the necessary materials, equipment, and spare parts and their shipment by air.

Even when world prices dropped in the second half of the 1980s, each additional ton of oil produced and sold gave us \$130, and it gives us \$225 now that prices have risen again. According to our estimates, exports of oil are approximately 7 times as effective as exports of domestic passenger cars, 11 times as effective as exports of electronic timepieces, and 17 times as effective as exports of cameras. The figures for the export effectiveness of other raw materials are slightly lower but nevertheless impressive.

The new procedure of regular deductions from export receipts, instituted for workers in the oil and gas industry for the first time in 1990, should play an important role in the struggle for additional hard currency earnings. In line with this procedure, when the export supply of the petroleum branch reaches 98 million tons, 5 percent of the currency is deducted for producers; 10 percent is deducted for them for the next 19 million tons, and they receive 20 percent for the next 8 million tons of exports. The establishment of this procedure in other raw material branches of industry could do much to rectify the situation with regard to hard currency.

### **Export Reserves Right Under Our Feet**

The **export of various waste products**, which is just beginning, could be an important source of additional foreign currency. When programs are drawn up, a special procedure

could be established to make quick and competent decisions on the export of any by-products not being used at the time, the products of waste conversion, ferrous and nonferrous scrap metal, waste paper, other recyclable materials, submerged logs, burned timber, and other usable waste. The fact that clever managers of cooperatives and joint ventures have compromised this form of export to some degree should not obscure its tremendous potential to generate hard currency receipts. The guide to action here should be the indisputable principle that it is better to sell unused waste products and decaying, rusting, rotting, and mil-dewing items than to look for additional export resources of the oil, timber, metal, motor vehicles, and other products in short supply in the domestic market. Our potential for the utilization of waste products for foreign and domestic needs is truly unparalleled in the world today. Here is one example: The USSR is still processing only 3-5 percent of all the "tailings" in ferrous and nonferrous metallurgy.

**A broad group of measures for the conservation of fuel and energy resources and raw materials**, which would actually be carried out instead of simply being recommended on paper, would make more fuel and raw materials available for foreign and, of course, domestic consumption. According to some estimates, our annual losses represent from 40 to 60 percent of all the primary energy entering the economy. This means that if we could reduce these losses, calculated at the minimum rate, by at least 20 percent and export the savings, the additional export receipts could amount to no less than the equivalent of 10 billion rubles in hard currency. This could cover all of our expenditures on imports of manufactured consumer goods. Additional earnings would increase even more if we could reduce our losses of ferrous and nonferrous metals, fertilizers, chemicals, construction materials, instruments, and certain types of machines and equipment. Incidentally, much of the waste occurs in defense branches, where people are not accustomed to using raw materials and fuel economically because of their special status.

The resource conservation programs in our country have still not secured a revolutionary approach to potential savings, although the desired impact would be much easier to achieve here than in many new and more capital-intensive branches of the economy.

Foreign currency incentives for enterprises responsible for carrying out resource and fuel conservation programs should be introduced on a broader scale. These enterprises could be given a chance to receive, accumulate, and spend foreign currency equivalent to the value of the resources conserved over and above official conservation programs. We should not begrudge the cost of maintaining a small special organization to coordinate the results of resource conservation with additions to import requisitions for the needs of labor collectives.

### **Immobilized Capital**

Another of our abundant export reserves, which is also unparalleled in scale in today's world, is **unfinished construction**. This "Bermuda Triangle" in the Soviet



economy absorbs billions of the rubles we need so much for the augmentation of the country's domestic and foreign economic potential. Above-norm capital construction alone has immobilized around 40 billion rubles, including 6 million tons of rolled metal, 15 million cubic meters of lumber, and 30 million tons of cement. They could be sold for 17 billion dollars in the foreign market. Of course, we cannot export all of this, but part of it could be sold today, and some could be leased for hard currency, used as our contribution to joint ventures, etc.

It is time to do something with the **uninstalled equipment** that has been discussed ad nauseam during the years of glasnost. After all, its value is estimated at 18 billion rubles, including foreign currency worth over 5 billion. In the RSFSR alone, around 700 imported machine tools worth around 100 million rubles, 80 complete assembly lines for 350 million rubles' worth of hard currency, 45 sets of chemical equipment for 500 million rubles in foreign currency, and other pieces of equipment had not been installed on schedule at the beginning of 1990. It is time to legislate a procedure by which enterprises and their superior agencies will have to either install unused equipment or sell it in the next year or year and a half or be subject to a heavy fine and then repay the cost of the equipment.

#### **Hard Currency from the Hoarders**

Of course, when we discuss reserves of this type, all records are broken by the export potential of our "non-liquid assets"—the **above-norm commodity stocks** in the possession of enterprises and officially estimated at 520 billion rubles: 80 percent of the national income earned in 1988. Putting them in circulation would certainly benefit the domestic market, particularly by stimulating wholesale trade. Part of the "non-liquid assets" could easily be exported directly by the enterprises in line with the special statutes envisaging specific currency deductions for surplus shipments.

It would also make sense to establish a special center, equipped with the necessary computers, to enhance the efficiency of work with the above-norm stocks and their subsequent export. The center could keep records of different types of surplus stocks and their location and could even work in conjunction with foreign firms on a computerized search for probable importers of our old

inventory. If we could put just 12-15 percent of all above-norm stocks into circulation in foreign trade, the USSR could double its export earnings! No other country in the world has ever had this kind of untapped resource.

Because many of these goods are "kept in a bad place," they are pilfered and stolen without payment even in rubles, not to mention hard currency.

Evidently, we should also consider such tried and tested forms of trade as auctioning items off or selling them by the piece. In this way, our Maritime Kray lumber dealers were able to raise the price of a cubic meter of wood to two or three times the starting price. It is a pity that the general public paid almost no attention to the fact that one of our logs was sold recently for \$1,260! It should have been carved into a monument to the commercial initiative that is coming to a head in our fellow-countrymen and has already surfaced in some places.

We might also have to take immediate action to collect at least part of the debts owed to us by foreign states, estimated at 80 billion rubles, or to do something about the unproductive expenditures of hundreds of millions of rubles in construction projects in developing countries.

Our country is still missing a chance to earn billions of rubles because of the delays in the passage of a law on foreign investment, intended for the maximum involvement of foreign capital in the modernization of our economy, the development of our export base, and the pursuit of our import-substitution policy.

Economists discussing the need for immediate action in the foreign economic sphere sometimes suggest new credit for imports of consumer goods, the sale of part of our gold reserve, etc. These are valid suggestions, but they also underscore the importance of not trampling the gold under our feet.

#### **Economic Aspects of USSR-U.S. Relations**

914K0012Z For an article on the *Economic Aspects of USSR-U.S. relations* published in SSHA: EKONOMIKA, POLITIKA, IDEOLOGIYA No 10, Oct 90, see the JPRS Report Soviet Union: USA: Economics, Politics, Ideology, JPRS-USA-91-002, pages 1-4.

### Creation of U.S.-USSR Political Science Center Planned

91UF0374A Moscow LITERATURNAYA GAZETA in Russian No 3, 23 Jan 91 p 4

[Interview with Social Sciences Institute Rector Yu.A. Krasina by LITERATURNAYA GAZETA Correspondent Ya. Skvortsov: "School of Parliamentarians: A Soviet-American Political Science Center Is Being Founded Based on the Party School"]

[Text] Nearly a year ago, Washington International Center of Policy and Development Director Lindsay Mathison proposed the organization of a Soviet-American Center of Parliamentary Democracy and Constitutionalism to the Social Sciences Institute under the CPSU Central Committee and to the Soviet Association of Political Science.

The Soviet-American Conference on Problems of Parliamentary Democracy and Constitutionalism that occurred at the Social Sciences Institute under the CPSU Central Committee from January 7 through 10, 1991 became the first step toward creation of the center. Congressmen B. Byron, N. Johnson, G. Johnston, D. Colby, T. Penny, a number of former members of the U.S. Congress, scholars, and public figures participated in it from the American side. USSR People's Deputies I. Laptev, F. Burlatskiy, V. Karasev, S. Lushchikov, A. Sebentsov, V. Shekhovtsov, G. Shakhnazarov, V. Kudryavtsev, A. Yakovlev, and others participated from the Soviet side.

LITERATURNAYA GAZETA Correspondent Ya. Skvortsov requested that Social Sciences Institute Rector Yu.A. Krasina talk about the work to create the Soviet-American Center and comment on the results of the conference's work.

[Krasina] If we talk about an assessment of the conference (it was heard from both the American and the Soviet sides), we consider it to have been a success despite a number of expenses. The exchange of opinions provided very useful information for the deputies.

Unfortunately, we did not succeed in attracting a large number of sufficiently high-ranking deputies, let us say, committee chairmen. The discussion was one-sided at times and it was more an exchange of opinions on the technology of the legislative process: How to work and how to construct a statute. This experience is useful for our deputies. But the theoretical level associated with the comprehension of a democracy's external problems must be significantly higher.

And nevertheless the center's primary goal is informal contacts of parliamentarians. We are discovering far greater opportunities than through other existing channels of cooperation.

[Skvortsov] What role can the Social Sciences Institute under the CPSU Central Committee play in establishing these contacts?

[Krasina] We are now in the process of transformation. The transformation of the Social Sciences Institute under the CPSU Central Committee into the Social and Political Research Fund has been predetermined (And I think this issue will be resolved in January).

Our center's goal is to be independent in the ideological context and to objectively conduct studies and prepare materials on political science issues for everyone who expresses an interest in them. There are no political science institutes in our country right now and our fund will also actually fulfill the role of a political science institute while at the same time relying on our international contacts.

[Skvortsov] Have the signs sufficiently changed in order to transform the Party school into a political science center?

[Krasina] Of course not. But this transformation is already occurring right now and a political science department is already operating at the institute. Work will be structured on a contractual basis. A research project is being developed and a team from various institutes is being recruited under it (they must be experts in some specific area). Our primary support is the USSR Academy of Science institutes. Good ties have been established with all institutes with an international profile. We are partially involving a higher school, primarily MGU [Moscow State University].

[Skvortsov] Obviously, the time is not far off when multi-party factions of socialists, social-democrats, and kadets will appear in our Supreme Soviet....

[Krasina] A multiparty system has not stabilized in our country for the time being. This is a lengthy process and it is firmly planted in the problem of the formation of a civil society.

### U.S.-Soviet Joint Venture To Open Supermarkets in USSR

91UF0366A Moscow IZVESTIYA in Russian 18 Jan 91 Union Edition p 2

[Article by I. Zhagel: "100 Stores: A Soviet-American Enterprise Is To Be Opened in Our Country"]

[Text] At the threshold between the old and the new year, an agreement was signed to create the Russian-American joint venture "Sodruzhestvo" [Collaboration]. This fact could be considered completely natural today, if it had not opened a virtually untrodden path for the joint ventures which exist in our country.

As a rule it is believed that the main problem for our country is that we simply do not produce enough goods and foodstuffs. And efforts must certainly be made in that direction. But the president of the Tekna-Pacific Foods Company, D. Jewitt, one of the founders of the new joint venture, holds a slightly different opinion.

"You will not succeed in supplying the population's demand," he said to me, "until the existing system of distribution is changed fundamentally. Emphasis should

be put on creating a broad network of private, cooperative, and joint stock stores and trade companies which will become a kind of impetus to develop production of goods and foodstuffs."

The Sodruzhestvo joint venture was created precisely as a trade company which by late 1992 is to organize about 100 stores and supermarkets throughout our country. In the first stage, until our monetary unit is convertible, some of the stores will use hard currency to do business, some will use rubles in free prices, and some will be oriented to the socially unprotected strata of the population, and trade in them will be carried out at discount prices using special credit cards.

The latter was specifically stipulated by the Soviet participant in the joint venture, the Russian Social Development Fund "Vozrozhdeniye," which is transferring its activity to an economic basis. As for the fund's initial payment to the joint venture, it will consist of three to five (depending on the area of the commercial space) purchased or leased stores.

In turn, in the first stage the American side will deliver a batch of foodstuffs to our country which will be sold through the stores that are given to it. All the profits obtained from this operation, as well as the profits from the continued joint activity of the Tekna-Pacific Foods Company, are committed to be invested only in the venture's development during the course of 5 years.

And not only are stores to be built, but also wholesale bases, factories to process agricultural products, and an in-house transport system. All this, in D. Jewitt's opinion, will allow the joint venture to become more and more oriented over time to the domestic producers of foodstuffs, farmers and agricultural cooperatives for example. And in a year and a half or so, the import of goods will be completely eliminated.

It is worth mentioning here that the joint enterprise will simply not be able to survive without the formation of these structures. To illustrate, in the United States the income of trade companies is only 2-3 percent of the gross sales. And hence, sales volumes must be extremely large so that an individual store or trade firm can prosper.

To be sure, the following question arises: will the joint venture's profits be sufficient to develop this entire system? Well, as the managers of Tekna-Pacific Foods told me, they are not relying on just their own efforts. Negotiations have already begun with a number of American companies involved in food production, and they have expressed

readiness to invest money to develop the processing industry on our country's territory.

The decisive factor for them was the fact that in the near future it will be possible to sell output produced outside the existing trade structures. In other words, there will be a guarantee that their goods will not waste away in some warehouse and be delivered to their designations too late, and be sold to the population not in accordance with demand, but at the wish of certain bureaucrats.

"But the key link in this entire chain is still the stores," D. Jewitt said. "Through them dollars or rubles are poured into the system, inducing everyone to work to satisfy the demand of each particular person."

There is a special provision on the question of training cadres in the agreement to create the joint venture. Some of them will undergo special on-the-job training in the United States. And that, of course, is very important, for it is precisely in the sphere of organizing trade that the catastrophic situation with specialists has taken shape in our country. It was the most closed system, least subject to the influence of the West, and gradually it lost all its best traditions.

I should add to this that within the framework of the joint enterprise, a number of other projects are being developed. For example, the American Emerald Seafoods Company proposes to organize a joint fishing venture in Soviet territorial waters. Twenty percent of the value of the catch would be directed to develop a network of stores and sell some of the output processed on its ships in those stores.

The Emerald Seafoods Company owns equipment and technologies which allow it to determine the biomass in a particular region very accurately and catch no more than 10 percent of the fish, which guarantees the renewal of the entire population. It proposes to put the work on this same basis for us.

Unfortunately, this idea has not yet received support on our side. And in general I must say that before the agreement to create the joint venture was signed, the American businessmen had to haunt the doorsteps of many ministries and departments. Where to their proposals to set up a fundamentally new system of distribution and trade, it was in turn proposed to them to help obtain loans and buy foodstuffs which would once again be sold through the old system.

Of course, the new joint venture will hardly completely destroy our domestic trade monopoly. But even so, as D. Jewitt said, it is important to raise the flag which the advocates of the new business will rally round.

**FRG Official on Joint Soviet-German Construction Projects**

91UF0423A Moscow IZVESTIYA in Russian 30 Jan 91  
Union Edition p 4

[Article by Dieter von Vurtsen, state secretary of the FRG Ministry of Economics: "Housewarmings To the Urals"]

[Text] Our plans also call for the establishment of a modern base for the construction industry. The program envisages installation of four house-building combines which will work on this new construction. We expect that our cooperation will not be limited to the framework of a housing program. We envision an active exchange of experience and the establishment of close contacts with Soviet enterprises which will facilitate the introduction of Western technology into the Soviet construction industry and the development of market relations.

But let us revisit events of not so long ago, when the Berlin Wall came crashing down. Hundreds of photographs remind us of this today, photographs taken at the historic moment of unification of the German people 45 years after conclusion of the war. This historic turn of events became possible thanks to the fact that the USSR Government declared resolutely and definitively its adherence to principles of peace, cooperation, and security in Europe. One clear piece of evidence to this effect is the decision to withdraw Soviet forces from Germany. Germany too has assumed certain obligations in connection with this act. The housing construction program we are talking about here is one of them.

Two ministries engaged in construction issues in the FRG and USSR have advocated establishment of a special committee, tasked with the practical management of execution of the housing program. Forms of mutual accounting have also been determined. The necessary organizational premises for practical action have also been created in this manner. Both sides are united in the fact that the housing construction scheduled in three USSR republics must be accomplished within the envisaged time frame. We are certain of the success of the enterprise and believe it can become a solid base for development of business contacts between the FRG and USSR.

It is our opinion that the so-called joint "German-Soviet Bureau" should play a great role under these conditions. Its personnel intend to study the experience of the two countries and utilize all of the best that German and Soviet

builders have accumulated in their work. I am convinced that a construction project of such large scale will enable us to get to know one another, to work out common principles and approaches. Another group, composed of consultants, will operate under the USSR Ministry of Defense—our main customer. German specialists are obligated to assist in the search for effective solutions to construction and architecture problems, and to monitor observance of time constraints and quality of construction.

We have agreed that orders for general contracts will be given to firms which prevail in open competition. The general contractor bears individual responsibility for the entire complex of construction. He himself selects the subcontractors. This means the contract will be obtained by the enterprise which will guarantee, on the basis of planning documentation presently being drawn up, the highest quality projects with minimal expenditures and strict observance of construction deadlines.

The federal government bears financial and political responsibility for the entire project. It is enlisting the participation of German enterprises primarily from the former GDR. After all, they have great experience in dealing with Soviet enterprises. However, this does not preclude assignments being obtained by firms from other countries. It must be taken into account that the geography of the new construction is vast. The projects encompass an enormous front and many business entities have the ability to become involved in the new construction, if not directly then indirectly, in roles as supplier or subcontractor.

Major firms and companies that have a solid material and financial base find themselves in the most advantageous position. As far as workers and specialists are concerned, in addition to Germans we are going to enlist construction workers from Soviet organizations and also from Poland, Romania, and Turkey. They will be paid in German marks. In this regard, the Soviet side has pledged to draw up appropriate terms in the interests of Soviet workers and specialists engaged in the construction.

Along with the housing construction and the installation of house-building combines, plans also call for the delivery of special equipment and materials. Preliminary work on construction will start the beginning of this year.

I am convinced that implementation of this broad-scope housing program will facilitate deepened cooperation not only between the governments of the FRG and Soviet Union but also between our peoples.

### **Bulgarian Economic Reform Favorably Compared to Soviet Process**

*91UF0437A Moscow IZVESTIYA in Russian 5 Feb 91  
Union Edition p 5*

[Article by A. Kapralov: "Prices Have Skyrocketed, Bulgarians Are Not Grumbling"]

[Text] Sofia—The other day the Council of Ministers held a news conference in which the head of the government Dimitr Popov called for the population to greet the first step of the economic reform calmly. This is a step toward salvation, he said, we have no other path, we must halt this senseless decline of the economy at any price.

The Bulgarian lev, as we know, is valued at almost one to one with the ruble at the official exchange rate and therefore it is easy to make a comparison. The more so since Bulgarian wages are still very close to ours. I write "still" because with the introduction of free prices, people will receive a significant compensation whether they are working or on a pension. And the most appreciable aid will be given to the underprivileged. The smallest compensation will be received by the highly paid categories of workers. So the entry into the market economy will be under almost equal conditions, at least for those who live on their earnings.

We do not know yet how the introduction of free prices will be reflected in the assortment in the stores. The majority of them were closed on Friday and the weekend. But I will share my first impressions.

In a small store in a nearby market area I managed to buy two long loaves of bread for two levs apiece. In the market eggs were selling like hot cakes at one lev each, meat was selling at 30 levs per kilogram, and a local version of Bulgarian sausage [servelat], Lukanka, which cost about 20 levs a year ago, was sold out in a couple of minutes at 120 levs. The price of homemade "rakiya" (grape vodka) went up to one lev per proof...

To the applause of passers by the passengers in buses or trolleys punched holes in whole books of tickets—prices had increased more than ten-fold here. Some people who got stuck in the capital were unable to go home on the train—the tickets became six times more expensive. And while previously it cost 13 levs to get to Varna, from now on it will cost 80-130 levs, depending on the class. What next? A buyer was found immediately for a leather and fur coat costing 38,000 levs!

But the most surprising phenomenon of these days, in my view, is not the new prices but the way the population is handling their appearance. Calmly. Nobody is grumbling. The social world has not been undermined. The reason for this is fairly simple: For the first time since 10 November 1989, Bulgaria has a government that suits all the main political forces in the country. But the main thing is that this government, which includes fairly young people compared to the previous one, has begun to act energetically, without delay, and, most important, it has included not only the

future but also the present of their compatriots in their plans. At least, unlike us, it is clear to the Bulgarians why they must be patient.

### **Early Results of CSFR Privatization Campaign Viewed**

*91UF0437B Moscow IZVESTIYA in Russian 5 Feb 91  
Union Edition p 5*

[Article by L. Kornilov: "How Mr. Engineer Put Out Millions

[Text] Prague—The first auctions under the program for small-scale privatization were held in the Prague mayor's office in the presence of the minister for affairs of national property and privatization of the Czech Republic, T. Jezek. They were very stormy. Some things were unexpected and in some ways they proceeded as expected.

The unexpected part had to do primarily with the complete success of the auction. Everything that was offered was sold. "That is fantastic!" exclaimed Ivo Havlas, first director of Czechoslovakian auctions, himself the owner of a private auction agency. "Everything looked as though sale by auction had been the most common thing in our country for the past 40 years."

The first purchase: a vegetable store on Konev Prospekt. The assigned price: 11,000 korunas [Kcs]. This price immediately jumped upward. When it went past Kcs29,000, Gavlas, instead of adding Kcs500 to the bidding each time, began to add 1,000 and then 2,000. Having reached the sum of Kcs200,000, the bidding began to speed along in increments of Kcs10,000. Whew! The financial storm lasted for less than 10 minutes and then they heard: Kcs580,000. Going once, twice, three times...and the bang of the gavel.

The winner was the 25-year-old Ilona Dandanova. What kind of a rich woman is this? The journalists had to work very hard to find out the secret: Ilona is the wife of the engineer Al-Dandan, a Jordanian living in Czechoslovakia. The couple are already the owners of a firm that delivers exotic fruits to Czechoslovakia.

This, incidentally, is not the only case. The law prohibits foreigners from participating in the auctions, but foreign capital without labor assumes a quite "homegrown" demeanor when it is poured from one family pocket into another. In the lobbies of the trading hall we noticed that in principle it would not have been necessary for them to be married. It is simply that the name of a Czechoslovakian citizen may be backed by nameless money from abroad...

But whether it is in evasion of this law or not, the legal owners are still Czechoslovak citizens. And the money that is earned flows abundantly, in particular, into the state fund for the development of the private sector.

Before the beginning of the trading, a participant in the auction must make a deposit in the bank of one-tenth of the initial price. Once he has bought the store he must



begin business within no more than seven days. This is easiest to do if the workers themselves have bought the trading point. But so far only one case like this has been registered: They have no advantages in the auctions. So the new store owner can fire the manager the next day.

The origin of the money is of practically no interest either to the person in charge of the auction or to the privatization commissions. "I do not intend to look into people's pocketbooks," stated Minister T. Jazek, and his words do not diverge from the law.

V. Stepova, minister of trade and tourism of the Czech and Slovak Republic, announced that privatization is a means of fighting against "crazed tradesmen" who ask exorbitant prices. When 30-40 percent of the trade network is privatized everything will change, she said. Specialists note that the success of auctions contributes to a significant degree to bolstering the prestige of the Czechoslovak koruna and stabilizing it.

One can clearly feel the resistance from trade administrations and associations. They are trying to prevent the privatization of certain objects that have belonged to them up to this point and to create joint stock companies. But the law blocks such maneuvers.

...A textile business in the Prague region of Vinograda was purchased by the engineer M. Klika for 2.5 million. "I took out credit," he explained, "but in principle I have the money; I earned it through private entrepreneurship over the past year." But even this engineer did not set a record. Of the 70 objects sold during this past weekend in Prague, the most costly was a clothing store in Zeleznaya Ulica not far from the town hall. M. Lishka, who lives as an emigrant in Austria and who has several stores for fur items there (but who still holds a Czechoslovak passport) paid 3.6 million for it...

In Czechoslovak stores the new year began with almost unrestrained growth of prices, and instead of the anticipated 30-40 percent it was, according to preliminary estimates, it is already 80-100 percent. This, of course, was the main theme of the discussions in newspaper articles in January. But at the last moment the center of attention shifted to the sphere of privatization. Finally, after long-awaited promises and plans, it developed in a heavy, crude, and visible way.

How are the owners disposing of their newly acquired property? For example, the professional journalist and translator, 34-year-old Ladislav Krumpolts, who bought a vegetable store in the Prague-10 region, is retaining the assortment for two years, as required by law, but he is improving it with fresh flowers and mementos made of wood. He intends to buy his fruits and vegetables mainly from private producers. "The new owners will have to offer the clients better services for reasonable prices, otherwise they will fail"—such is the conclusion drawn by the newspaper OBCANSKY DENIK.

### Problems, Prospects for Soviet-Hungarian Economic Ties

91UF0359A Moscow IZVESTIYA in Russian 17 Jan 91  
Union edition p 5

[Article by IZVESTIYA special correspondent F. Lukyanov, datelined Budapest: "We Are Buying the Factory "Icarus" but What Are We Selling?"]

[Text] If all goes well, then the consortium into which the all-union association "Autoexport," has entered along with some of the major Russian, Ukrainian, and Belorussian enterprises, jointly with Central European Investment Fund under the direction of the well-known Hungarian entrepreneur S. Demian, will become a joint-stock company, "Icarus." The automobile manufacturing complex "Chepel" will also be producing for it.

In any case, in the course of international competition, the establishment of a consortium was adopted as the best way to proceed and the likelihood of its success is quite high. Experts estimate that this will be the most prominent capital investment of the Soviet Union abroad, and promises solid dividends.

The rescue from final bankruptcy and reconstruction of "Icarus" allows for improvement in the production of twice as many new-model buses (over 20 thousand units) over three years, 70 percent of which will go to the Soviet market. This will resolve the matter of spare parts for our bus fleets. Thirty percent of our cars will be sold to the Hungarian and world market naturally for foreign currency. Against a background of multiple problems in the economic relations between the USSR and Hungary, the "Icarus" project is becoming, one might say, one of the first signs of the new market mechanism now going into action.

The problems and difficulties in mutual trade between the USSR and Hungary have been written about on several occasions, including articles in Izvestiya. In 1990, a reduction in Soviet exports amounted to 15-20 percent while Hungary saw a reduction in 25-30 percent. Soviet debts grew to more than a billion dollars by December. Under conditions like these what possibly will provide the transition from a convertible ruble to dollar calculations? Will it be possible for a new mechanism of trade to overcome the negative tendencies that the Soviet consumer is experiencing?

According to the USSR trade representative in Hungary, E. Kosobuko, one may compare the new mechanism with a powerful locomotive which is capable of pulling along both trade and economics.

Concerning profits. According to the calculations of economists, including the Hungarians, the transition to world prices in trade with simultaneous preservation of current volumes would provide give the USSR a surplus of 1.2-1.5 billion dollars a year. As he noted at his recent press conference in Budapest, the Minister of International Economic Relations B. Kadar said the transition to world prices will be accompanied by no small losses for Hungary, but in

the final analysis, it will be profitable insofar as the country is linked to the world economic system.

Where does the Soviet surplus originate? Here is a situation where the Soviet Union previously bought part of Hungarian goods at world prices (foodstuffs), or at even higher world prices (autos, equipment), but sold raw materials at Comecon prices which are often lower than world. As a result, with the transition to world prices, the surplus results. Even with the modest estimates of specialists, recently published in the newspaper "Nepsabadsag," Hungary will pay more in fact to the Soviet Union for all goods from now on: for oil—a minimum of 10 percent, for oil products—25 percent; for cellulose—10 percent, for phosphate—60 percent; for automobiles—30-35 percent, or possibly even more. (Whether the "Lada" will withstand market competition against the "Opal" and "Fiat" is another question.) At the same time Hungarian electronic goods at world prices are two times less expensive for the Soviet Union than before. And such a situation approximates that for other industrial goods from Hungary, for which Comecon prices from time to time exceed world prices by 50.

"It's true, most likely, we will not succeed in realizing a surplus of 1.5 billion dollars," says E. Kosobuko. In the first place, the partners are pressing for the quickest payment of our liabilities in arrearage. And in the second place, Hungary most likely will go to a reduction in their imports from the USSR in order to balance its goods turnover. Nevertheless, in this way economic goods which earlier would have gone to Hungary all the same stay at our disposal, and it is possible to go to other markets with them and today obtain significant profit."

It is incorrect to assume that things are such that a transition from a harshly centralized "quota-ing" of goods to free trade is possible to do within a given framework of weeks or months, the more so as in both Hungary and the USSR foreign trade is still concentrated in the hands of state power and Moscow and Budapest have practically no free currency reserves. This being the case, a variant for a gradual transition to free trade has been selected.

Thus in accordance with the intergovernment agreement signed at the end of last year, according to the calculated list the USSR will sell at world prices goods worth 2.1 billion dollars—in basic raw materials and energy sources, vitally necessary for Hungary (oil, gas, electricity, timber, non-ferrous metals). We will also purchase what is most necessary—"Icarus" buses (5 thousand units for 300 million dollars), spare parts for them (at 140 million), pharmaceuticals (at 400 million), medical instruments, foodstuffs, in all totalling 1.7 billion dollars.

And it is not limited, naturally, to this trade exclusively. The calculated lists with a sum of nearly 4 billion dollars included only approximately 50 percent of goods turnover in the last year. All remaining trade has moved from the center to levels in the republics, oblasts and remaining enterprises. Apropos of this, Hungary has so

far carried out agreements with Russia, the Ukraine, Belorussia, and other union republics and oblasts. It was from Russia that the first trade agreement was signed.

### **Economic Reforms in CSFR Viewed**

91UF0365A Moscow LITERATURNAYA GAZETA  
in Russian No 3, 23 Jan 91 p 4

[Article by Vitaliy Moyev: "Into the Cold Water with a Bottle of Champagne"]

[Text] Our personal correspondent has begun work in Prague. We are publishing below his first article, on the start of the radical economic reform in Czechoslovakia.

Since the start of the New Year, truly fundamental economic reform has begun in Czechoslovakia. The day before, the hosts of television programs were raising bottles of champagne to the health of their viewers on screen. But following that, the public, warmly congratulated on the New Year, was plunged into the chilling waters of economic innovations.

Old, romantic Prague, with its bridges, towers, and quiet paved little streets, this dear heart of Prague, was turned into the image of an Eastern bazaar. An anthill of commerce raged right in the streets, even in the central Vaclav Square, famous Vaclavak, and on the preserve of the Charles Bridge. Supplanting the traditional easels of artists, kiosks and stalls arose, putting everything you could imagine into circulation, including our Armenian caps and overcoats. I am not even speaking of the stores: the clerks were literally run off their feet.

The Christmas rush? Undoubtedly. But not just that. People were certainly storing up for the future. Recently Czechoslovakia has become better acquainted with shortages: first salt, then eggs, and then matches vanished. Friendly acquaintances advised unanimously: "Buy everything right now, immediately, don't wait for the first of January."

On 1 January, in his New Year's address, President Vaclav Havel proclaimed that the radical economic reform was going into effect. Among other things, prices are being liberalized. Of course, the full scenario of the reform is much more multifaceted and envisions structural changes in production, a new tax system, small-scale and large-scale privatization, and many other things. But let us dwell on prices now—they affect a person directly.

Inasmuch as I am in fact writing from Czechoslovakia, what should we start with if not beer? It is with good reason that people here used to say, fool around with other prices, maybe, but don't touch beer—you'll bring on a storm. So, today a little bottle of Radogosta, which used to cost 2.5 koruny, already pulls in a little more than 5 koruny. A loaf of caraway bread costs not 6.6 but 11.5 koruny, and 1 kilogram of beef—not 56 but 83 koruny. Services, transport, and energy are getting more expensive; in fact just about everything is.

Perhaps the new Czechoslovakian prices do not seem so very exorbitant to our reader (10 koruny is approximately 1 ruble), especially since our counters are simply empty. But here people feel the blow more tangibly. In the neighboring store an old woman is almost in despair: "Dear Lord, how am I going to survive the winter?" And almost more than the rise in prices itself, it has been the confusion and discrepancies from the very first days that have annoyed and irritated people. In one place they are asking 20 koruny for a package of butter, and in another—24; cigarettes went for 18 koruny at the tobacco kiosk on Vaclav Square, and in a neighboring store—for 21. How, and why, and where, and on what are you supposed to save money?

The confusion of the first days can be explained, however. To illustrate, goods from a store's stock were sold at old prices, but goods which were just obtained—at the new ones. People did not immediately get the idea that various price zones had appeared in the capital: closer to the center things are more expensive, and closer to the suburbs—cheaper. The merchants themselves even added fuel to the fire. They hastened to raise prices to the maximum, and then supposedly they would be able to lower them and the customer would even say thanks. Others are trying to maintain perspective—they tremble for this very customer: a sharp fall in demand was noted immediately.

But all the same, the most important thing is still how further events go. Economists have been expecting a major change in prices since the WWI (I!). According to the predictions of the Ministry for Strategic Planning, the general level of prices is rising by roughly 50 percent at first. After about 2 months, they expect, this wave will run into consumer protest. Deputy Premier Vaclav Vales noted: "A market crisis the likes of which the republic has never encountered awaits us. The time will come when even the producers will scratch their heads. The clash will be brutal—to determine who destroys whom."

Credit must be given: the scenario of economic reform was prepared in Czechoslovakia very, very carefully. Government legislative and executive organs, scientific forces, and practical workers were all involved in the work.

Partial state regulation of prices was preserved in order to protect the population from the first blow. A fixed price ceiling was set on the most vital essential goods. In other cases, before he lightens your pocket, the producer must prove that his costs have really risen. Finally, the rule has been set for a third group of goods: you cannot raise the price without an announcement in advance.

The favorite subject of Minister of Finance Vaclav Klaus, a man with a shy smile and a strong grip, an intellectual who at times is called the father of this reform, as Otto Sik was in the 1960s, a popular admonition which even the minister himself and his coworkers use to address the concerned public, is roughly this line of thought. If it's too expensive, you don't have to buy it, do you. Supply is the hostage of demand, and if there is a boycott by the consumer, the producer will be driven into a corner. He will have no other recourse but to move prices back or give up the store to someone a little smarter. The main thing is to survive the first charge.

Judging from sociological surveys, the need for reform is broadly recognized. Almost 70 percent of the population sees it as a guarantee against economic failure and as a source of new hope. But on the other hand, only 12 percent of those surveyed appear to be ready to actively support the scenario of reform which has gone into effect. What should we believe, which of these two conflicting testimonies?

It may appear that the second carries more weight. And what kind of a reform is it, you say, without active support? But personally I would decide differently. Certainly, none of us is ever completely satisfied with how essential things are done. Each person nudges things along and each person wants to bend things a little bit his own way. Alas, that is the Achilles heel of constructive ideas. That is their ancestral curse, just as the ancestral blessing of critical notions is their well-known popularity. There is nothing you can do here. The only thing which provides strength and helps us extricate ourselves from the jumble of capricious discord is general acceptance of the general spirit of changes, agreement about the main thing. Indisputably, it is dominant in Czechoslovakia today.

And we will see how things go from now on.

**Soviet-Argentinian Meeting To Promote Business Ties Held**

91UF0386A Moscow LATINSKAYA AMERIKA  
in Russian No 12, Dec 90 [Signed to press 28 Nov 90]  
pp 132-133

[Unattributed article: "Meeting Of Businessmen In Argentina"]

[Text] In August of this year, the first Soviet-Argentinian meeting of businessmen was held in Buenos Aires. It was organized by the Argentinian "Mediterranea" Fund and the USSR Academy of Sciences Latin American Institute within the framework of the recently coordinated joint program for cooperation in development of economic relations between the two countries. Its realization provides for the scientific study of prospects for Soviet-Argentinian trade-economic relations and for the implementation of direct meetings between entrepreneurs of both countries in Buenos Aires and Moscow.

More than 20 leaders of major Soviet enterprises and associations arrived in Argentina to participate in the meeting. They represented various spheres of the economy and those interested in expanding international relations. In the course of the meeting, direct contacts were established with the Argentinian business world. The program of measures provided for talks on specific projects and deals, visits to Argentinian companies, trips to various provinces of the country, and a seminar on "Reforms in the Soviet Union and the Possibilities for Intensification of Economic Relations with Argentina". At this seminar, the business people learned of the most important aspects of economic development of the two countries, and discussed the problems and prospects for cooperation. Argentina's Minister of Foreign Relations and Worship D. Cavallo and USSR Ambassador to Argentina O. K. Kvasov presented greetings addressed to the participants. The program coordinator for the Argentinian side, A. Dadone, and the head of the Soviet delegation, Latin American Institute Director and USSR Academy of Sciences Corresponding Member V. V. Volskiy, presented the keynote speeches.

It was noted at the seminar that in the last decade Soviet-Argentinian cooperation has developed in many spheres. Soviet enterprises are participating in construction of a number of major economic facilities in Argentina, and specifically power plants. There is a bilateral agreement on fishing. In Mendoza and Cordoba passengers ride in trolleys made in the USSR and the application of anti-hail rockets purchased in the USSR has made it possible to save the grape harvest in a number of provinces. Soviet specialists are performing dredging operations in the port of Bahia-Blanca. This will significantly increase the port's passage capacity. The Soviet Union is one of the largest importers of Argentinian goods. The Argentinian-Soviet Chamber of Commerce is actively operating. The inter-governmental mixed commission which reviews questions of bilateral relations meets on a regular basis.

At the same time, it is evident that the time has come for a qualitative surge forward. In the process of the reforms which have developed in the USSR, thousands of Soviet enterprises and organizations have gained the opportunity of direct entry onto the world market. There are already firms operating in the country with participation of foreign capital, and the first Soviet-Argentinian companies have emerged. However, this is only the beginning of the complex and contradictory, and at the same time entirely necessary and inevitable process of the Soviet economy's transition to a market course, and its active and full-fledged inclusion in world economic activity. It is extremely important for the business people in our country to receive continued consultative and organizational aid from science. It is specifically for this reason that the initiative of the Latin American Institute and its partner—the "Mediterranea" Fund—has received such broad support. [These organizations] have undertaken the realization of a joint scientific-practical project whose goal is to facilitate the optimization and intensification of economic relations between the two countries.

It would not be an exaggeration to say that in Buenos Aires a new form of contacts between business people from Argentina and the USSR has obtained a "passport to life". As with everything new, this form of entrepreneur relations was not easily born, overcoming many obstacles of both an objective and subjective character. We would like to wish the "newborn" successful growth.

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### State of Trade Relations With Southeast Asia Examined

91UF0384A Moscow PRAVDA in Russian 23 Jan 91  
Second Edition p 6

[D. Kosyrev report: "The Ice Has Begun To Break Up"]

[Text] Singapore-Kuala Lumpur, January—We are not newcomers in the markets of Southeast Asia, but the volume of trade ties with Singapore, Malaysia, and Thailand, for example, does not even rate a credit in the "others" in the local statistics because they are so insignificant. In the Soviet trade representations and embassies, for years they cursed the unfavorable political climate and the suspicious attitude toward us. But now that is a thing of the past. In the past few months decisions have been made to accelerate the procedure for issuing visas for businessmen to travel to the Philippines and Indonesia. In Malaysia, restrictions were minimal even earlier, but interest in us is palpable. The general mood here can be conveyed in the words of Lee Kuan Yew, until recently the prime minister of Singapore. This fall he called on local entrepreneurs to "invest" the time, effort, and money in the USSR so that they can already be there when the basic reforms have taken place.

In short, the changes in the USSR, the new foreign policy, and the efforts of the diplomats have left their mark: They have started to trust us and really want to do business with us. The ice has been broken. Now it is up to the traders.

This year, commodity turnover has already jumped. Almost double. As A.N. Nazarov, the USSR trade representative in Singapore recently explained, we have been acquiring consumer goods on a massive scale in the countries of Eastern Europe, and not even for hard currency. That opportunity is now closed, and many of our importers have turned to Southeast Asia. At last! Previously they preferred, for example, to buy clothing or pantyhose of German, Austrian and other makes in Europe, but it was all being made here, at enterprises located in Southeast Asia. Now they have figured out that it is possible to acquire exactly the same things on the spot, but at a much lower price. True, many of them are making their purchases not exactly where the goods are being produced—in Thailand, Indonesia, or the Philippines—but in the trade center for the region—Singapore. We pay the people of Singapore for their knowledge of Asia, their contacts, the guaranteed quality of deliveries, that is, we are paying for our lack of experience. Nevertheless, the progress is there to see.

In order to buy, however, it is also necessary to sell and to earn hard currency. The uniqueness of the situation is that fate has given us a chance just now to take advantage of the fruits of a qualitative leap in economic development in the countries of Southeast Asia. Yesterday's suppliers of raw materials, cheap textiles, and consumer goods have in one or two decades been transformed into states with developed industrial production facilities and high- and mid-level technologies. Today, in order to

consolidate their success, producers in Southeast Asia are looking for opportunities to expand their circle of partners and find use for the capital that they now have for export. It is more difficult for us to penetrate the markets of the United States and Europe; they have already had experience of new, dangerous competitors. Possible scenarios for a solution include the "Third World," East Europe, and us.

How do these plans work out in practice? Lee In Chuan [as transliterated], deputy chief of the apparatus of the Singapore TDB (Trade Development Bureau) (roughly analogous to our Ministry of Foreign Economic Relations), says that local businessmen would like to build several hotels in Moscow, and also be involved in equipping and managing them and supplying staff. This so that somewhere would be available for foreign entrepreneurs to stay and work (we obviously have a shortage of rooms and services), and to develop a very profitable business—tourism. We see that there is advantage for both sides. They are even more interested in work on computer and information equipment, and here the complementary nature of opportunities and interests is obvious. Malaysia is discussing plans to refuel aircraft belonging to its national air line in Tashkent instead of Dubai en route to Europe. And naturally this will require modernization of the ground services and premises at the airport... Let me remind you that it is only plans that are being discussed or on which initial work has been done. The future promises many scenarios.

But there is no need to consider endlessly what those scenarios will be. The countries of Southeast Asia have managed without us on their road to their present prosperity, and they can manage without us today. We are not the only ones at whom they are looking. I learned from my conversations in Malaysia that business circles there have a much better idea of the future structure of their investments than in, say Vietnam, and Singapore is opening its own head office for links with Eastern Europe in Budapest, not Moscow.

Why? The reader is well aware that it is right now that our system of foreign trade relations is in a state of fever. But exactly how is that reflected in Southeast Asia? The one happy exception is Singapore. In the words of A.N. Nazarov, we have been lucky there because up to now the links with that country have not been extensive. Singapore has, therefore, hardly been concerned with the inability that scared off other partners last summer and spring when our enterprises were unable to make their contractual payments. The situation is much worse with respect to Malaysia: I learned from my meetings with local business people that their trust in us has already been damaged.

The opening of a branch of the Khirurgiya Glaza Interbranch Scientific Technical Complex was canceled, doing great damage to the Promet Company, which had already started on its construction. No price could be agreed for the cost of training a Malaysian cosmonaut and flying him on one of our vehicles. In general, as the



USSR trade representative in Malaysia, K.N. Peskov, was forced to admit, today the result of "direct ties" proclaimed earlier between that country and Uzbekistan has been a zero. They have not come to the local central stores, where there is quite good control over nitrates and fruit from Uzbekistan. A contract for deliveries of our fabric has been wrecked. A trip to Tashkent by a large trade delegation from Malaysia was canceled at the last moment, after the tickets had been bought: it turned out that no one had told them that Uzbekintorg had been reorganized.

True, many of the approximately 15,000 of our organizations and departments that now have the right to deal in the foreign market have been hearing about the fabulous opportunities in Southeast Asia. Of course, for a country like the USSR 15,000 is a laughably low figure, but today the trade representations are literally shaking from their invasion into those distant countries. Each has five to 10 people working there, and previously there were 10 to 15 delegations each year. Now up to 150 are going there. People are traveling who do not know the language and often do not even have money, and on top of everything else have only a very vague understanding of how to do business there, and with whom. They sign a contract and forget about it, they beat down the price in the markets... This is occurring regardless of form of ownership. This is the style of most of the "new boys," both state and cooperative. Nor should we forget the "tourists" who, without being registered anywhere or having informed the trade representation, buy up all the tickets for flights to Singapore and Kuala Lumpur for a year ahead. They buy up cheap, good-quality electronics goods locally and sell them in the USSR at great profit.

Here, however, we must note the most important thing. The present "wild" stage in our opening up of Southeast Asia is not some disaster, not some deviation from the norm, but an explicable and inevitable stage through which we must pass. The annoyance being experienced by our trade professionals as they observe this thrashing about is understandable. But in the Southeast Asian countries they remember that their road to the present heights started with small traders, and even now that is a significant part of the economic picture here. "People with suitcases filled with goods? Let them come." Lee In Chuan from the Trade Development Bureau smiles. "The people of Singapore are engaged in the same thing. All we need to know is that a person is able to pay." Now, one of the main subjects in talks between the chambers of commerce of the USSR and Singapore is how to help the small traders and producers in the two countries deal in a civilized way with each other.

While looking with tolerance at our tribulations, they intend to wait for change. Let us clarify that. The partners are in no way expecting any return to the past, they expect the creation in the USSR of the foundations of a modern market economy. Otherwise we shall not be needed by them. Nor is it even a question of the impossibility of a return to the earlier centralized foreign trade system (which did somehow

work); it is rather the inefficiency of the economy in general that makes exports unprofitable while our services are not required here.

If we talk about the foundations of a market economy, then nothing so nauseates a businessman as lack of definition and instability. For example, the Singaporeans, Malaysians, Thai, and so forth, not only want to be sure that they will be signing agreements for both sides to protect investments and avoid double taxation (and these things are fitting), but also to know that agreements will be observed. They still need to know with whom they discuss the major issues—Moscow or the republics? We also need that same degree of stability and confidence in tomorrow. Confidence, for example, that goods already earmarked for a contract will not be sequestered at the border of some autonomous oblast in accordance with some order issued the day before to ban the export of anything from that oblast. Likewise, we need the confidence that export and import operations will not tomorrow be strangled by some new excessive tax or inexpert prohibition imposed by legal parliamentary means.

Permit me to note, permit me to express the hope that we shall not only provide a favorable business climate for ourselves and for others, but also create information structures that will enable our enterprises to learn without difficulty what can be acquired in Southeast Asia today and, particularly, tomorrow and the day after tomorrow. To know, for example, that when going to Singapore it is essential to aim at its growing role as a regional center for information science, biotechnology, and medicine. While in industrially developed Malaysia they should know to set their minds on joint work in the field of domestic and computer electronic technologies, photographic and audio and video equipment, and car making. Perhaps then we shall no longer lag so chronically behind the times, and will prime ourselves for commodity exchange with that same Malaysia mainly by buying raw materials and attempting to sell machines that in principle they will not have without us.

How is information obtained about a partner? We have the Singapore Trade Development Bureau with its computerized reference service: lists and fax numbers of companies throughout the world, and facilities for getting answers to specific questions about where it is more profitable to sell, where to get airplane tickets, which hotel to use. All, of course, for a small payment. Incidentally, we also have a computerized library within the Ministry of Foreign Economic Relations system, and the information services of the chamber of commerce and the Delovoy Mir Concern are growing and being put in place... Perhaps eventually the trade representations abroad will start to be involved in their main mission—not making hotel reservations for our trade guests and informing them about clients, but studying the state of the market with the more distant view of delivering that information to Moscow.

In general, the road ahead is a long one. And is it worth it? Perhaps we should continue to orient ourselves on Mother Europe? Here are some facts and figures. According to

figures from the United Nations, in 1990 the average growth in gross national product for the six countries that make up ASEAN was 8 to 15 percent. Southeast Asia has thus confirmed its reputation as the most dynamic region in the world: economic growth is double the world average. If we also add Japan, South Korea, Hong Kong, and Taiwan to the "six," then today the GNP of these countries is 68 percent of West Europe and 64 percent of the United States. Given present rates, they will "pass" those figures in the year 2000 and 2010 respectively. This all means that the century of the Pacific predicted for the next century has in fact already begun.

It is common knowledge that the USSR is a Pacific power. Up to now, however, it is rather the geographic and military reality on the material plane that has brought some return for each of us. According to evaluations made in Singapore, the share of the USSR in trade and other foreign economic activity in the Asia-Pacific region is just 1 percent. Just 1 percent...

### **Corazon Aquino, Political Leadership of Philippines Profiled**

*91UF0387A Moscow PRAVDA in Russian 25 Jan 91  
Second Edition p 5*

[Article by PRAVDA correspondent D. Kosyrev: "What a Burden Lay on These Shoulders..."]

[Text] Manila, January—... "Ladies and Gentlemen! The president of the Philippines...." The participants in the news conference rise. Cigarettes had been extinguished ahead of time: Aquino is highly allergic to tobacco smoke. A short woman moves with short steps toward the platform. Aquino, as always, is wearing a suit of quite plain cut with a bow in her favorite color—in a spotted design. She replies to the questions with the utmost simplicity, concisely and... without any particular pleasure: it is clear that the president is at this time performing not one of her favorite duties. Sincerity, simplicity in communication and evident lack of a predilection for politics also played their part in her assumption of office in February 1986.

The idea that C. Aquino might be a presidential candidate arose for the first time in the spring of 1984. She personally, resisted this to the best of her abilities and even posed, in her view, untenable conditions: if a million signatures were collected in support of her and, further, if Ferdinand Marcos, then president of the country, announced early elections. But, contrary to her expectations, both happened.

Was Corazon Aquino a novice in politics at that time? Yes and no. She had been a step away from the political battles that had been shaking the country for two decades. Her husband, Sen Benigno Aquino, was considered the most realistic candidate for the highest office at the end of the 1960's and, in any event, one of the two most striking figures on the political stage at that time. The other was Ferdinand Marcos, president of the Philippines from 1965 to 1986.

In September 1972, on the threshold of the elections, Marcos declared martial law. Arrests of opposition leaders began. One of the first was Aquino. He spent seven years six months in confinement. In 1980 Marcos released him (with his family) for treatment in the United States, correctly calculating that Aquino would not return to his cell. Marcos in this way simultaneously kicked his rival out of the country and lifted from himself charges of cruelty. All these years C. Aquino raised her children (there are five in the family) and while her husband was in prison she was essentially his liaison. She remained a housewife in Boston (United States) also, where a large group of Philippine emigres, who saw clearly that Marcos' attempt to create a prosperous society by an iron hand had failed and that the country was unswervingly moving toward a profound crisis, gradually gathered around them.

In August 1983, B. Aquino decided that the time had come to challenge Marcos and return home. Subsequent events are well known: He was killed by soldiers while still on the steps of the aircraft at Manila Airport.

It is still not clear who gave the order for this: for mysterious reasons the investigation was not completed. There are many versions of this crime, including the following: A most experienced politician, Marcos could not have failed to realize that it was he who would be accused of the assassination by the whole country (which is what in fact happened). It cannot be ruled out that this was a conspiracy against both—removing from the political arena the two strongest players with one blow.

From this moment the fate of the Marcos regime was sealed. The country increasingly sank into a chaos of strikes, marches, and mass meetings. Everyone was demanding its departure. An ever increasing number of those wishing to occupy the presidential seat emerged. Availing himself of this, Marcos announced at the end of 1985 early elections. But the Aquino candidacy, put forward at the last minute, made it possible to achieve the impossible: Marcos found himself faced with a united opposition headed by a popular candidate—the widow of a fighter against dictatorship. The sympathies of Washington, which desired to detach itself from its recent ally somewhat more quickly and ensure stability in the country, where two most important U.S. military bases are located, also increasingly inclined toward Aquino.

Each side conducted its own tally of the vote at the elections. As a result both candidates proclaimed themselves elected and both were sworn in almost simultaneously. But Marcos remained in the palace, while Aquino set off on a tour of the country. The situation was resolved in a surprise fashion two weeks later: A small group of military officers raised a rebellion, and Marcos threw against the rebels an armored column; but its way was barred by a mass of people who had taken to the streets at the appeal of the church, which had from the very outset been on the side of Aquino. The vast crowd did not break up for four days. Marcos could not use

force and he turned for help and advice to Washington. The answer was: You must leave. The former president was taken to Hawaii.

Now let us recall the situation the country was in at that time. In 1986 some 60-70 percent of its population was below the poverty line, unemployment constituted 40 percent of the able-bodied population, industry was operating at half-capacity, and inflation raged. A state that at the turn of the 1950's was second behind Japan in this part of the world in terms of living standard and economic development had slid back steadily.

A brake on development was the semifeudal structure of land tenure: large estates and a mass of farm laborers. The gap between rich and poor was, it is believed, the highest in the world here, and in Asia for certain. Therefore the constant flare ups of the insurgent movement. And also the resistance of society's traditional structures to modern technology.

The rulers of the Philippines had repeatedly declared as task No. 1 land reform, that is, a break with relations that had remained virtually unchanged since the times of the Spanish, namely, a distribution of the plantations and transition to tenant farming. No exception either was Marcos, who declared that he would either conduct reform or die. What happened was the latter....

Aquino assumed office, as she acknowledged, without any precise political program. However, all was in principle clear: The sick society could only be cured by profound reforms, land reform primarily. And her government started out fine, at first sight, with the mass support of the population. Aquino may be credited with the immediate release of political prisoners and the start of a dialogue with the insurgents, the revival of a free press (which remains, in my view, the strongest in Southeast Asia) and a replacement of the Supreme Court. A constitution was drawn up and in 1987 adopted. If it is at all possible to speak of the "Aquino program," it appeared thus: to give back the economy to the businessmen, and politics, to democratically elected politicians, and to hope that this system would work independently.

What about today? The picture, to be frank, is a sorry one. Two years after the enactment of the law regulating land reform only two percent of the land earmarked for sale has been redistributed. On the other hand, the law has brought about the resistance of the plantation owners, who have formed their own party and who are now demanding that execution of the reform that they hate be transferred locally, where the feudal lords are in control of everything. Negotiations with the insurgents have been broken off, and the war is flaring up anew.

To speak of the situation in the administration itself, there have been any number of "trifling" incidents undermining the electorate's trust in its capacity to operate normally. These include constant scandals connected with bribes and abuse of office on the part of government officials of various

levels, up to and including ministers, and infinite promises of the authorities unsupported by action.

But let us take the sphere in which successes have shown through, it would seem—the economy. What is the country's general condition today? Figures of rapid growth and increasingly new capital investments are in evidence. Not to mention the fact that the huge foreign debt—the heaviest Marcos legacy—has, although not disappeared, been reduced both in absolute terms and relative to export revenues.

The revitalization has occurred essentially only at the "upper level" and has not spread to its most backward sectors, that is, has not affected those who were in most need. The authorities not only have not been able to stimulate a leap of production into the 21st century but have not resolved such burning problems as water supply, power supply, and transport.

But let us return to the starting point: What kind of person today heads the country with a 60 million-strong population and a multitude of chronic problems? What is her experience and what are her views on politics, and personal predilections?

Corazon Maria Cohuanco was born 58 years ago to the family of an important merchant and landowner from Tarlac Province. Today also, owning a sugar plantation of over 6,000 hectares, she is among the country's biggest landowners. This means that in the upper reaches of Philippine society, which have in practice monopolized politics and business, Aquino occupies a far higher position than, say, the "upstart" from a poor family—Marcos. In addition, the influence of a group called "Chinese" is growing among the local elite with every passing year, and C. Aquino belongs to this group in full: Her great grandfather came to the Philippines from China at the end of the last century.

In accordance with the traditions of Chinese emigres, even those who had grown rich in foreign parts, the young Corazon was raised in strictness and thrift and had to wear her sisters' hand-me-down dresses. In school she was considered a quiet, shy, industrious, and serious little girl. She acquired a classical liberal arts education, graduated from an arts college in New York and completed three semesters of law at the university in Manila. Almost immediately after this she married Benigno Aquino.

From conversations with people who know the president well, it follows that industriousness, seriousness, and reserve are now also the principal traits of Corazon Aquino's character. The fullness of her work day and the fact that in all these years she has never been absent for reason of illness for more than one day—and then only once—is astonishing. The talk about the weakness of the president's character is, it would seem, a delusion. She has already shown many times that she can confront danger calmly.

And, finally, no one has ever disputed her personal honesty and decency. Virtually her entire cabinet and her relatives have been accused of corruption, it seems, but Aquino, never.

What, then, are the roots of her problems? It is not, I believe, a question of her personal attributes, but of the fact that the government, having abandoned the policy of real profound reforms, hereby condemned itself to half-measures and to going with the flow, that is, confined itself to reacting to problems that emerge—often when it is too late to respond.

Arguments are arising here often: Did Aquino personally want these reforms? Did she fully understand the need for them? There is no doubt that the president and her associates sincerely desired the nation's revival. But far more important is the following question: Could she have effected such changes even had there been a clear-cut program?

In 1986, it seemed that she was supported by absolutely everyone. This was in fact the case as long as there was a common goal—riddance of Marcos. But after this it became increasingly clear that the Aquino coalition had temporarily united opposite forces. Some were for rapid democratic transformations, others wanted merely the removal of the group of families that had prospered under Marcos, preventing left-wing democratic forces from attaining office here. However, the right flank of Philippine society was far better organized—particularly if it is considered that the army top brass was on this flank. The years 1986 and 1987 essentially represented a series of palace coups, at times imperceptible to the outside eye, in which some groups of the "Aquino bloc" would supplant others. After each such action, the regime slid further and further to the right.

It is clear that the Army played the biggest part in the regime's rightward turn at the first stage. The first four of six coup attempts were essentially warning sallies by the military. The army top brass put them down, but subsequently demanded removal of the "cause of dissatisfaction"—a variety of liberal figures. And then history played a cruel trick on the regime—the point being that the Army in the Philippines is not united, it is fragmented into factions and groupings. And whereas earlier coup attempts had been undertaken by the RAM, a group of a right-wing persuasion, in the latest—December—putsch the lead role, it turned out, belonged to the "Young Officers Union," which had detached itself from the RAM. The alliance accuses Aquino of not having carried out the requisite reforms and of being incapable of alleviating the poverty of the majority of the population and of reining in venal officials. The Young Officers Union simultaneously advocates the closing of U.S. bases—one further question whose solution the authorities, not without pressure from the "right-wing" military, have dragged out and continue to drag out to the last.... Now the Young Officers Union is declaring that it is preparing a new coup.

People are pitiless toward those who govern them. The greater the hopes they had initially entertained, the more severity they display. The leader is responsible for everything, including for what he could not have prevented. Perhaps when the C. Aquino presidency is history, the Philippines will recall that they were governed by an honest person with a sincere hatred of violence. When the official portraits of Aquino are taken down, perhaps it will be time for someone to glance at a snapshot more than 30 years old taken in a New York college—a young woman with a wasp waist on a student stage dancing on tiptoes. Perhaps they will then recall what a tremendous burden lay on these fragile shoulders.

### Means of Revitalizing Soviet-Vietnamese Economic Ties Proposed

91UF0444A Moscow IZVESTIYA in Russian 6 Feb 91  
Union Edition p 7

[Article by IZVESTIYA Correspondent B. Vinogradov, Hanoi: "Prices, Hard Currency, and Debtor's Shackles or How to Impede Soviet-Vietnamese Cooperation"]

[Text] The answer to the question—what is the topic most often being discussed right now in Hanoi—does not have any variations—it is prices. The topic is so timely that it has overshadowed all other problems of the Vietnamese capital and the capital seems to have plunged itself headlong into trade which has been transformed into an intricate market labyrinth.

There were all sorts of prices when a market economy reigned in Vietnam. They went up, went down, or remained at the same level to the general joy of the inhabitants and the government. But from a certain moment, something inconceivable has begun to happen to them. It began with fuel, electricity, and fertilizers. Then price increases affected other goods. Furthermore, the rates of increase are measured not in single digits but in tens and even hundreds of percent. For example, gasoline now costs four times as much as it did three months ago and electricity costs five times as much. But price increases for food are most painfully affecting the people.

A paradoxical situation is being created—the country is exporting rice abroad in large quantities and holds third place in the world in rice exports (last year—more than two million tons) but prices on the domestic market are changing nearly every day and frighten buyers with their numbers. No one can moan about a poor harvest. On the contrary, this past season the grain harvest turned out to be a record high, especially in the Mekong Valley provinces.

Everything that is currently occurring is all the more surprising when you recall the policy of radical economic reform that was begun after the 6th Vietnamese Communist Party Congress and successfully implemented during the last four years. Recognition of free competition in trade and industry, the introduction of private ownership of the means of production, dismantling administrative management methods, repeal of the rationing system, and the transition to a single price



policy permitted the people's standard of living to be significantly increased and to insure adequately high production growth rates. This was done without any prolonged discussions or hesitation and with enviable ease and, I would say, with administrative elegance and without social cataclysms or upheavals.

There was neither a hint of a governmental crisis nor weakening of the Vietnamese Communist Party's leading role during the last four reformist years in Vietnam. Maybe, it is hard for some people to imagine but here during the course of the changes of an economic nature which also occurred in our country, social stability was not only not weakened, it increased. For the first time, national per capita income reached \$400. This is, let us say, two times less than Thailand but it is not \$150 as in Laos that, along with which the SRV [Socialist Republic of Vietnam], was not so long ago considered to be on the list of the world's poorest states....

Alas, the situation began to change at the end of last year. Experts explain this phenomenon by the fact that the country has entered a qualitatively different stage of development where it faces a fierce struggle with inflation that has begun and with a shortage of capital investment and financing. These difficulties were anticipated. They are also primarily linked with the reduction of aid from the Soviet Union and with the introduction of a new mechanism of our cooperation based on the principles of mutual benefit and on calculations in freely convertible rubles.

For too many long years, our mutual trade and cooperation was based on mythical indicators in the form of transferable rubles and stop-prices approved at one time within the CMEA [Council for Mutual Economic Assistance] framework. Therefore it is not surprising that the dance with price increases is also directly related to the readjustment of the mechanism of our cooperation.

Hardly anyone would deny that the past years of friendship and close cooperation created a sound foundation for the mutual development of our countries' economies. Moreover, to eliminate established ties, the knowledge we have accumulated about each other, and the working experience would be inexcusably frivolous. We could avoid these words if the regrettable signs of a certain cooling of our relations and the termination of business contacts had not already become a reality.

At the end of last year, a large group of Soviet experts, 500 of 700, left Vietnam. We need to stress that they left at the initiative of the Vietnamese who refused their services as a result of the lack of hard currency needed to pay them. Until the present time, as we all know, the work of Soviet experts here was paid by the Soviet treasury through credits we extended.

Obtained through old promissory notes whose term expired this year. But here is also the rub—the Vietnamese do not have the funds and, moreover, they are asking for a delay

until the year 2000. Incidentally, not only Vietnam but other countries—our traditional debtors—are also in this situation.

While observing how the review of foreign economic ties with Vietnam is currently proceeding, you at times come to the sad conclusion that our side, especially the legislators, are worried about only one thing right now: Collection of debts. There is no disputing that this is an important thing. But it is certainly impossible not to also consider the possibilities from the opposite side. And if they do not have any [assets], then would it not be worthwhile to think in economic terms about what we have at our disposal that has been achieved and about the fact that it already has and can bear good fruit? For example, why would we not resort to the creation of joint ventures at facilities built with Soviet aid and direct part of their profits to pay off credits. Obviously it is possible to sell all previously extended loans to a third country which has funds available and wishes to "put down roots" in Vietnam.

Market relations must place everything in its own place. Mutual benefit must just be the main thing. But, due to our current inactivity, will we not later have to once again penetrate the Vietnamese market which we at one time so diligently participated in forming. The facts show that right now it is as if Soviet-Vietnamese trade has faltered before the new mechanism has been set into motion. According to some assessments, having previously attempted to balance [trade] using credits and now having been deprived of these injections, trade will be reduced by a factor of three or four.

The loss of our interest in the Vietnamese market, which is occurring under the influence of changed competition and economic difficulties, threatens to turn into losses in the future for Soviet traders. Already right now some of them are increasingly sensing competition here from resourceful Japanese and farsighted Europeans.

Even Vietnam itself is persistently seeking new beneficial partners and, it is thought, in the event the political situation in the region improves and the Cambodian problem is successfully resolved, doors to the rich, by local standards, ASEAN [Association of South East Asian Nations] countries could be opened to them.

Local reform has not affected the state's political structure which continues to remain authoritarian and true to socialist ideology. Incidentally, if we keep in mind that these terms mean maintenance of order in the country and the firmness of economic control, then this is only for the good of the reforms.

The time of drastic changes is the time to reassess values. That is understandable. We also know that we are once again paying too high a price in our haste to search for momentary benefits. Really both here and in Eastern Europe, will we lose everything good that we have accumulated during the long years of our selfless friendship due to our foreign trade departments' lack of agility?



### Broader Economic Ties with Arab Countries Urged

91UF0416A Moscow SOVETSKAYA ROSSIYA  
in Russian 1 Feb 91 First Edition p 5

[Article by Aleksandr Smirnov, candidate of historical sciences, under the rubric "Soviet Union—the Arab World": "But There Will Be a 'Tomorrow' Also..."]

[Text] The Soviet Union's relations with the Arab states and with the Arab world as a whole are passing through a very complex stage under the conditions of the crisis of perestroika and the war in the Persian Gulf. The Arab region does not border our country directly, but is quite close to it. This fact has enabled Soviet-Arab relations to avoid to a certain extent the difficult moments and whole periods which there have been in the history of the relations of Russia and the Soviet Union with Turkey, Iran, and Afghanistan. To speak of Central Asia, the Volga area, and the Transcaucasus, which were most closely connected with the Arabs of Muslim civilization back at the times of the Ommayad and Abbasid caliphates, even in Estonia and Latvia the most ancient coin treasures which have been found are ninth century silver Arab dirhams. Russian and Ukrainian have a notable proportion of words and terms connected with trade and crafts, astronomy and mathematics of Arab origin.

The advent of the present approach of the Soviet Union to the Arab East was in the highly promising period of the Khrushchev "thaw" in the Soviet Union, which coincided with an era of social and economic upturn in the Arab world. In the whole time of the development of Soviet-Arab relations the Soviet Union has not imposed a single regime or ruler on the Arabs. Moscow has not been involved in a single military coup in the region, and the USSR has not carried out landings of its forces and has not even had military bases there in the full meaning of the word. If there were in Egypt or other areas for a short period of time Soviet military personnel performing combat assignments, these were actions to repulse external aggression. The prestige of the Soviet Union did not suffer as it did in Kabul, Prague, or Budapest.

In recent years there has been a considerable weakening of the ideological barriers in the way of Soviet-Arab mutual understanding thanks to the withdrawal of our forces from Afghanistan and the state's new constructive policy in respect of Soviet Muslim citizens. The CPSU's renunciation of a constitutionally enshrined leading role in our society helped break down anticommunist stereotypes, which were very strong in the Arab world.

But, nonetheless, many problems requiring a circumspect and balanced attitude toward them exist and have newly arisen between us and the Arabs at the present time. In the economic plane Soviet foreign economic interests are now mainly oriented toward the developed Western countries and Japan, and relations with Arab states have remained relegated to the background. Politically, the emigration of Soviet Jews to Israel and the

occupied Arab territory, which has assumed monstrous proportions, is sounding a loud bell in the minds of Palestinians and a majority of other Arabs. Our strengthening partnership with the Americans in the solution of the crisis in the Persian Gulf and the manifest blurring of the USSR's image as an active independent force in the region are encountering an ambivalent, more often than not negative response, particularly at the level of the everyday consciousness.

The present ebb in trade and economic relations with the Arab countries is simply illogical. As Vadim Yefremov, deputy chairman of the USSR Trade and Industry Chamber Presidium, believes, there are sound opportunities for an increase in imports from these countries. Purchasing from European firms commodities actually made, for example, to their orders and on license in Egypt or Morocco, Soviet importers are overpaying, according to the most modest estimates, by 10-15 percent. There are possibilities also for an expansion of Soviet exports to the Arab region, and Soviet business circles are afforded broad prospects by the growth of export resources and the existence in these countries of a ramified network of small businesses—the most flexible and stable. Arab business circles' cooperation with the Central Asian republics has taken a practical path. An important bank has been created in Kazakhstan in conjunction with Saudi Arabia. The Soviet Union has obtained the first major loans from Saudi Arabia and other Arab states of the Persian Gulf.

But the manifest incapacity of our competent organizations to at least somewhat regulate the mass exit of Jews from the Soviet Union increasing the hegemonism of Israel, which is led at the present time by the most anti-Arab government in the country's history, is in no way adorning our country, is depriving it of hundreds of thousands of good specialists, and is manifestly threatening the positive development of the USSR's relations with more than 20 Arab states. Israel itself, despite colossal outside assistance, is no longer capable of normally accommodating and finding employment for all these people, many of whom are being directed into the most unprestigious jobs, settling on territory which does not belong to Israel and forcing out the Arabs.

Meanwhile the strengthening Zionist movement in the USSR considers the alpha and omega of its program the movement of the majority of Soviet Jews to the "Promised Land," is pushing them to leave with all means at its disposal, and is creating for this an entire structure, including its own security service and the transmission of operative information to Israel. Under the conditions of the CPSU's renunciation of a claim supported by law to the leading role and in the atmosphere of general de-ideologization, Zionism in the USSR is endeavoring to bring under its control as large a number of Soviet citizen Jews as possible and is on the threshold of a real ideological boom. Neither the FRG nor the United States is involved in the absorption of its future citizens on the territory of the Soviet Union, but Israel prepares its patriots even before they disembark at Ben Gurion Airport.

I have in front of me an official Jewish Agency document concerning stimulation of the departure of Jews from the USSR. It follows from this that this Zionist organization, which is based in Israel, already has 14 "emissariats" in the biggest Soviet cities preparing Soviet citizens for life in the new homeland. Some 150 Soviet history teachers were in a year to have gone to Israel and taken a course in Jewish history (in the appropriate ideological format) in order upon their return to pass on their new knowledge to the children. The worst thing is that the future immigrants are being indoctrinated ahead of time in a spirit of scorn for the indigenous Arab population of Palestine.

This entire extensive activity is taking place before the establishment of official diplomatic relations with Israel even. What might we expect following the exchange of embassies? Of course, there are few people in Moscow now who are opposed to the development of Soviet-Israeli relations. May they strengthen in the sphere of culture, in the economy, and in science. But this should not be at the expense of a weakening of the Soviet Union's position in the Arab countries. The most important thing is that our relations with Israel should serve the cause of peace in the Near East. But we have not as yet seen any steps being taken by the Shamir government en route to a just peace and compliance with UN resolutions on the Near East.

Movement is as yet in the opposite direction rather. Attempting to prevent the departure of some Arab partners from the anti-Iraq coalition, even American diplomacy has in recent months repeatedly dissociated itself from Israel's disgraceful crimes in respect of the Palestinian civilian population. Our Foreign Ministry, however, removed the final political conditions in the way of the opening of embassies in Moscow and Tel Aviv, which was a pleasant surprise for Shamir, who prior to the meeting with the USSR foreign minister had prepared a small package of concessions on the Palestinian issue.

Moscow's decisive condemnation of the Iraqi invasion of Kuwait and its active efforts to prevent the war which has erupted in the region have been perceived positively or, at least, with understanding in the majority of Arab countries. But the calls which were being heard at one time in our country for Soviet military participation in a possible war in the Persian Gulf elicited extensive anger in the Arab world. Thank God, the USSR did not dispatch its military personnel.

An end has been put to the stormy debate on this issue. But it will be a long time before many Arabs forget, for example, the irresponsible and at the same time naive statements of the young doctor of sciences Aleksey Arbatov, who demanded that Soviet soldiers be sent to the sands of Arabia to help the United States "defend our proclaimed ideals" and who would have us believe that the participation of our military in the campaign against Baghdad would have for them a "healing effect" following the shock evoked by their involvement in interethnic conflicts and would shore up their prestige even. Senator Daniel Patrick Moynihan, Democrat, who

is far more versed in politics and who once represented the United States at the United Nations, by no means believes in the idealism of the White House in respect of the oil stores of the Persian Gulf. Speaking in the Senate, he observed that President Bush "has surprisingly begun to appeal to rules of international law to which we ourselves do not adhere." And even representatives of the U.S. Administration are speaking more often not about the ideals but the interests of the United States and the West in the Near and Middle East.

Our country's clear and balanced policy in the Near East could strengthen the respect for us of all countries of this region. Great positive potential is contained in mutually profitable relations with the almost 200 million-strong Arab world both for a renewal of our Union and for a peaceful future of the Near East region.

### **Soviet Intelligence Activities in Afghanistan Described**

*91UF0346A Moscow KRASNAYA ZVEZDA in Russian  
9, 10, 12 Jan 91*

[Article by A. Brazhnikov: "Remember, 'Kaskader'..."; dedicated to the intelligence officers of the Kaskad detachment who died in the Republic of Afghanistan]

[9 Jan 91 p 6]

[Text] The real history of the Kaskad special detachment will not be written soon. It will take some time for the implacable stamps on documents to seem less categorical. When the young intelligence officers, who are now full of strength and energy, retire to take a deserved rest, the country will finally learn the whole truth about the great feats and ordeals of all those who had to fight and die in the gorges and valleys of Afghanistan.

At this time, however, I have a regrettable need to take up my pen and describe all of the heroism and tragedy of certain incidents, even though the Afghan war is such a clearly unpopular topic in today's press. This need arose because too many lies are being told and too much mud is being slung at the people who took part in those events by others who never even saw war up close, never looked into the face of death, and never lost friends in combat. Untenable remarks are being made about the activities of intelligence officers during the Afghan war by former General Kalugin and by the "anonymous colonel" who told SOBESEDNIK all of the outrageous stories about the intelligence officers who were speculating in Afghan goods.

The special services of the countries backing up the insurgent Afghan opposition are still actively promoting their own "products" in the international information market in the hope of denigrating the Soviet assistance of Afghan armed forces and security agencies and the Afghan social order. They have not given up their plans to establish an Islamic regime in the Republic of Afghanistan and to launch a massive propaganda assault on the Central Asian republics of the USSR in the hope of creating a Muslim conglomerate separate from the

union. In the present atmosphere of frenzied nationalism and separatism, these plans are much more distinct than they were during the Afghan war.

In this choir, a particularly distinctive note is sounded by the shrill voice of the pseudo-radical press, which is so eager to spread scandalous rumors that it does not take the trouble to check the information it prints. The journal *STOLITSA*, for example, published the "memoirs" entitled "How I Stormed Amin's Palace," which revealed, according to the unanimous opinion of intelligence officers, that the author had not even witnessed, much less taken part in, the events he described, but had simply based his account on vulgar gossip. The personnel of the KGB Maritime Kray Administration, who passed through the firestorm of Afghanistan, have demanded that the military feats and heroism of Soviet soldiers and intelligence officers be described in as much detail as possible, so that history will not be rewritten so shamelessly before the very eyes of the generation responsible for making this history. This issue was also raised in the 19 September 1990 edition of *DAGESTANSKAYA PRAVDA*, where former internationalist soldiers N. Nigmatullayev and R. Shangereyev said many kind words about the intelligence officers who lost their lives in Afghanistan.

Unfortunately, it has become one of the negative signs of our time to shout: "I did not serve, but I know! I did not see, but I heard!" But when you hear the true accounts of those years, told by real people whose hair has turned prematurely gray, you see how far removed they are from the swaggering and bragging, you hear the quiet conviction and modesty in their voices, and you realize that you have to report at least the small part of the truth that their demanding profession, which will brook no boasting, will allow to be published today.

I will apologize to the reader in advance for the almost total absence of names in the stories of KGB personnel—the former intelligence officers of the Kaskad detachment—about their former comrades. These people are still working in the intelligence service, and the requirements of confidentiality must be observed.

Here is what Colonel G.S. said: "The Kaskad detachment arrived in Afghanistan in 1980. The young men were physically fit and had been trained for combat in a special training session. Of course, they had some idea of the situation, but they had no idea how much simpler and simultaneously more complex it was in reality. Not all of them spoke Pushtu or Dari, and many had to use interpreters. The detachment was international in composition. It was made up of intelligence officers of 14 different nationalities, but this did not keep them from working together well in reconnaissance and tactical operations. They had to work under difficult conditions. It was at that time that numerous rebel bands were conducting intense subversive and terrorist activity. Those who prefer to speak of the rebels as only the armed opposition should take a look at some excerpts from the

operations record covering just the brief period of May-July 1980. In these unadorned reports, the members of the opposition certainly do not sound like 'freedom fighters' waging a gentlemanly battle only against the regular Afghan Army and the units of the 40th Army of the Soviet Armed Forces. The facts testify to something else: The rebels were killing civilians—physicians, party activists, and peasants with land grants—in different provinces almost every day. They were planting bombs and setting fires in schools and power plants and poisoning sources of drinking water, as in the village of Miri. The list of their heinous crimes is quite long...."

It was in this atmosphere that the Kaskad detachment, in addition to performing other duties, had to provide the Soviet command with precise information about planned acts of sabotage and terrorism and find the camouflaged bases and caches of weapons and explosives.

One of the first reports of a large secret cache was made by Senior Lt. Anatoliy Zotov, one of the detachment's intelligence officers. It was in one of the houses in a village controlled by the rebels. They had set up air defense posts with heavy-caliber machineguns on the approaches to the village. On the basis of this report and other information, the military command decided to destroy the cache with an attack from the air and only on the condition that none of the neighboring houses, occupied by civilian peasants, would be damaged.

Only the intelligence officer directly responsible for the accuracy of the information received could guarantee maximum precision during the bombing, and for this reason Anatoliy did not hesitate to lead the helicopter flight to the target. On the day of the operation he was at the airfield early in the morning, as resolute and lively as ever. Fighter planes delivered a strike against the discovered rebel air defense points, and then two helicopters set off for the target pinpointed by Anatoliy. He was sitting next to the commander of the first helicopter and saw clearly that the first run was unsuccessful—a strong gust of wind had knocked the helicopter off course, and the missiles hit the rocky soil alongside the cache. After conferring by wireless, the helicopter commanders decided that the next run would have to be made at minimum altitude to guarantee the destruction of the target. Because they had used up their ammunition, they returned to the airfield. Zotov's comrades heard how the pilots kept telling Anatoliy: "Stay here, you have done your part. Now we can finish without your help." But he was adamant: "I have to go with you. We will finish the operation together."

[10 Jan 91 p 4]

[Text] The next attack, at low altitude, seemed to be a success. The missiles hit the target, and at that instant the helicopter was struck by a round from a heavy machinegun. The steering controls were knocked out, and the helicopter circled wildly and plunged downward. The pilot might have been able to land the vehicle, but the missiles had detonated the tons of explosives in the attacked cache. A fiery death

consumed the crippled helicopter, and the vehicle lit up like a torch and went up in flames. Not one member of the crew survived. They died together: two helicopter officers and the intelligence officer.

What made this young man from the Moscow suburb of Mytishchi, a rated specialist who was fluent in Spanish, the father of two young boys, volunteer for service in Afghanistan? After all, he had the prospect of a career on a completely different continent and in much more comfortable surroundings. Why did he insist on finishing what he had started and taking a risk he must have foreseen?

I spoke with Anatoliy Zotov's friends and his wife Svetlana about this. After I had thought about what they told me, I realized that the Soviet character, which is being criticized so vehemently by today's preachers of individualism, is not an ideologist's invention or the product of a novelist's imagination. Many of the best features of this character were embodied in the living being who departed this world so prematurely.

Here is what Anatoliy's wife, Svetlana Zotova, told me:

"Anatoliy was a man of amazing integrity. Honesty in his relationships with other people was the basis of his moral code. He tried to take care of everything himself, even trivial household matters, and did not rest until everything was done. Besides this, he was a romantic, and he felt that there were few things left in life for a real man to do. This is probably why he chose the Geography Department of Moscow State University. He was drawn to new things, discoveries, new roads and impressions. He went on a few expeditions and had no complaints about the drudgery of life in the field. He cherished the memory of the beautiful places he visited and put together a large collection of slides.

"He was extremely eager to join the intelligence service and took pride in his work. He felt that he had found his calling, a job for a real man. He was certain that people had to live according to a basic principle: 'If I do not do it, then who will?' He volunteered to serve in Afghanistan in complete accordance with this principle, and this is what made him go back on the second flight that turned out to be fatal for him and his fighting comrades."

I am not writing about a paragon. There is no question that Anatoliy was a man with problems, shortcomings, and weaknesses. I stress this although it comforts the average man today to bring those whose life is governed by different values, transcending the bounds of reflex actions to save their own skins, down to his own level. But this makes genuine displays of humanity seem all the brighter against the dim background of the spreading mould of immorality and vulgarity.

This is why I was so glad to hear the news that the Pioneer squad in Mytishchi School No. 23 had taken Anatoliy Zotov's name. The children have established close contact with his family, are helping his elderly parents, and are inviting internationalist soldiers to their rallies and celebrations. Judging by the serious approach

the children have taken to these matters and by the gratitude with which Svetlana Zotova refers to them, I can confidently say that the children of Mytishchi saw the life and behavior of their local hero as a precise point of reference, aiding their immature hearts in finding the right road in today's grave political atmosphere. Politically motivated educators can say as much as they want about the "ideological obstruction" and "psychological enslavement" of the Pioneer movement, implying that it is no longer necessary or useful, but it is completely obvious that the force of positive example and instructive influence is still alive today, and that the "ideological vacuum" in education, which is being invoked by the supporters of deideologization, is only an example of the misleading rhetoric that is supposed to pave the way for other ideologies—religious, bourgeois, fascist, etc.

Participation in tactical operations, battles, and ambushes was an integral part of the daily life of the Kaskad detachment, but the intelligence officers also had their equally important basic duty of gathering information about the enemy and about plans that might threaten the life and safety of Soviet soldiers and civilian specialists. The war quickly tested the character and professional skills of intelligence officers in this area as well. It did this, as always, without warning or mercy.

Here is an excerpt from the operations record: "Rebels attacked a Soviet truck convoy in Mazar-e Sharif at 1530 local time on 2 January 1983 and hijacked a bus carrying 16 Soviet specialists who had been working on an elevator. All available tactical forces were mobilized for the search."

Subsequent events were pieced together from the accounts of Kaskad intelligence officers who were directly involved in finding and freeing the hostages.

The rebels made thorough and professional preparations for the operation. Two weeks before the attack, they kidnapped the family of Abdul Ghafur, the Afghan who always drove the Soviet specialists' bus, and forced him to take part in the bandit raid by threatening to shoot his wife and children. On the appointed day the Soviet workers were invited to a New Year's celebration and were asked not to bring weapons, so that the holiday could be observed in a symbolic atmosphere of peace. At an intersection in Mazar-e Sharif the bus was cut off from the convoy by a tractor, and the bandit ambush team, wearing people's militia uniforms, fired their guns in back of some huts to divert the attention of the guards. The driver of the bus stepped on the gas and raced the vehicle through alleys at full speed to the outskirts of the city. There, as the subsequent investigation revealed, a truck was already waiting, and the hostages were forced to board the truck. Some civilians, who had been coached in advance by the rebels, told the people's militia that they had seen the bus on the road to the Marmul gorge, located 20 kilometers from the city. In this way, skillful disinformation tactics were used to send investigators down a false trail in the first hours of the search.



Six battalions of the Afghan Army and subunits of the Soviet Armed Forces were sent out to comb the countryside. After a few hours they found the body of one of the Soviet specialists, Igor Shipulin, on the road. As his colleagues later testified, he had started a fight with the bandits at the time of the attack and was killed. It was clear that the bandits had serious intentions and were not inclined to spare the lives of their captives. A 3-day tactical operation did not turn up any leads. Then a fortified area was discovered in Karamkul gorge, and not Marmul. Fighting broke out, and the bandits were forced out of the canyon. In a cave, the search party found handcuffs, a list of the prisoners' names in Pushtu, and Shipulin's gun.

There was no further trace of the hostages, and reconnaissance was the only hope for many days. Amazingly enough, within a few days intelligence officers were able to get regular information about the movements of the rebels, who were leading the 15 hostages farther into the mountains, to the border with Pakistan. It was learned that the small but well-equipped band, under the command of Moulavi Usman, belonged to the "insurgents," and this did not promise anything good for the Soviet specialists.

[12 Jan 91 p 4]

[Text] In the middle of January there was a report that the bandits intended to execute the prisoners under Islamic law for the edification of all "infidels." The situation called for decisive action. With the active assistance of their Afghan partners (suffice it to say that President Najibullah of Afghanistan became personally involved in the efforts to free the hostages), the intelligence officers arranged for a channel of direct communication with the leader of the rebel band. The negotiations took several dramatic turns, and this alone could be the subject of a separate story. Moulavi Usman felt that he was in control of the situation and set increasingly harsh conditions: First he wanted all of the eminent citizens of Mazar-e Sharif to sign a petition calling for the release of the hostages, and then he wanted the authorities to release a group of bandits from prison.

Eventually, it became clear that the bandits had no intention of returning or exchanging the hostages.

The last reports corroborated the information that the Soviet specialists were being kept under guard in the village of Vakhshak (98 kilometers south of Mazar-e Sharif), were severely emaciated from the arduous journey, and were constantly being insulted and humiliated. The decision of the military command and the KGB leadership was unanimous—troops had to be sent in to seal off the village, and an attempt had to be made to negotiate the release of the hostages. Combat operations would be the last resort.

On 2 February a motorized rifle company of the Soviet Army and some subunits of the Afghan security service were landed by helicopter on the outskirts of Vakhshak. The landing force was commanded by Lt Col N. Vakhrenev of the KGB. The grim realities of war immediately modified the plan. The negotiations could not

begin because the bandits opened fire on the landing force. The protracted battle ended in victory, and the band was almost completely destroyed, but the price of the operation was incredibly high: 10 Soviet soldiers were killed, 15 were wounded, the Afghan army and people's militia lost 22 men, and three helicopters and four armored troop carriers were destroyed.

If any of the readers are among the specialists, landing force members, and intelligence officers who were involved in this incident, think back to the operation and the battle. Dear Mothers and Widows, we wanted to save them all, but we were dying ourselves! Can anyone bear to talk about the inordinate price we paid for the release of our countrymen? "Save your comrades, even if it kills you!" This motto, which sounded so sacrosanct and so valorous when I was in the army, now resounds with the echoes of real human pain and hope.

The operation to free the Soviet specialists became the first touchstone revealing the strength of the KGB's cooperation with the state intelligence service of Afghanistan. Personal contacts, according to former "Kaskaders," were always part of their daily "routine": Joint operations were planned and professional experience was divulged. The "routine" included night ambushes and trips across many kilometers into rebel-controlled zones for meetings with "informant-couriers" and conversations with the leaders of rebel bands, many of whom were prepared to commit bloody outrages against the uninvited guests and then went over to the government's side. The growing autonomy and increasing professional mastery of the Afghan partners allowed the Kaskad detachment to gradually curtail its operations. In April 1984 the Kaskad command groups were recalled from Afghanistan. A few intelligence officers stayed in the country as advisers at the Afghans' request.

A report in IZVESTIYA (No 258, 9 September 1988) told how the criminal plans of Islamic Party fighters, led by Ghulbetdin Khakmatiar, who wanted to commit a terrorist act near the Soviet military hospital in Kabul, were frustrated by the capable work of the security service of the Republic of Afghanistan.

Colonel Igor Akhmedovich N. relates how the explosion was prevented: "Around 4 months before this operation, the terrorist activity of the Military Committee of the Islamic Party of Afghanistan, which was headed by Khakmatiar, increased dramatically. The committee's fighters went to Kabul in secret, taking weapons and ammunition with them, organized bombings and rocket launches on the grounds of the Soviet embassy and densely populated residential neighborhoods, and took Soviet Army personnel and Afghan soldiers prisoner. The Afghan Ministry of State Security realized how dangerous these actions were and concentrated on infiltrating the Military Committee of the Islamic Party.

"Our advisers assisted in finding a man who agreed to accept the dangerous mission of infiltrating the terrorist ranks. He was a young Afghan named Aqil, a former



soldier who had fought in several battles. Rebel bullets had killed his brother, and Aqil did not have to be told that he would be walking a precarious tightrope. At that time he was working as a truck driver, had been in Pakistan several times, and knew his way around Peshawar, where he would have to make more than one nerve-racking trip. A carefully composed cover story and his native intelligence helped Aqil establish contact with the Military Committee fighters quickly. One of them was his schoolfriend Tareq.

"Aqil aroused their interest immediately. At the second meeting Tareq was already showing him how the hiding places for explosives were devised in the truck bodies and asked him to go along on a test run as a lookout for a sizable fee. Another driver was supposed to deliver the dangerous freight, and Aqil would be expected to help him if any problems should come up. Aqil agreed, but only on the condition that he could take this assignment on his next run to Peshawar. He said he would first have to learn as much as he could about the work of people's militia posts and about conditions on this route. Aqil's caution seemed completely understandable to Tareq, and he did not insist.

"The information Aqil delivered gave the Soviet intelligence officers and their Afghan colleagues a chance to make specific plans for the seizure of the explosives. A special group was trained for the operation. As soon as Aqil made a phone call from the border, the group was supposed to go to Poli-Charkhi, the Kabul suburb where a customs checkpoint was located, and detain the truck. Life came up with one of its surprises, however, reminding us all that, along with bravery and discipline, indifference and irresponsibility can flourish under the guise of obsequiousness even in the security service.

"Aqil called the security administration early in the morning to signal that the truck filled with explosives had passed the Jalalabad checkpoint and was on its way to Kabul. Although the officer on duty had been warned that the signal might come, he did not attach any significance to the phone call and did not mention it until after lunch. By that time the death-dealing Mercedes-Benz could have already been in Kabul. There was not a minute to spare. The head of the confiscation group, a friend of Aqil's named Kerim, jumped into a car with the division chief of the security administration, and they raced through the city to Poli-Charkhi at breakneck speed. They breathed a sigh of relief when they saw a truck matching Aqil's description in the long line at the customs checkpoint. This was followed by a simulation of a surprise inspection, during which the people's militia soldiers taking part in the operation discovered the hidden explosives in the truck 'by chance.'

"The data Aqil had gathered and the interrogation of the arrested driver gave the personnel of the Afghan Ministry of State Security a rich store of information about the Peshawar fighters' plans for subversive activities. This was the first time such a huge quantity of explosives had been confiscated. There was more than a ton of plastite, a substance much more powerful than TNT.

The main thing, however, was that the lives of hundreds of Soviet soldiers and civilians in Kabul were saved."

The story of the Kaskad intelligence officers in Afghanistan has to end here for now, but it will certainly be continued in the future....

### Results of 'Simplified' Iran-Azerbaijan Border Crossings Viewed

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[Article by Colonel V. Kaushanskiy, KRASNAYA ZVEZDA correspondent: "To Walk To Iran And Back; Our Correspondent Tells of the USSR State Simplified Border Crossing Point"]

[Text] ...The state ended before my gaze in an everyday and prosaic manner. Right next to it breathed the Caspian, serenely glistening in the winter sun. Several cows belonging to the border guards, ignoring the representatives of the control checkpoint and the group of customs agents, wandered lazily in the direction of the murky little Astara River which separates the Azerbaijani town of the same name and the town on the Iranian side, also of the same name.

The bridge which was officially called the State Bridge joined not only the two banks of the river, but also the two countries which had decided through negotiations at the end of last year to open one of the simplified border crossing stations at this very point. They agreed to do so by signing the appropriate memorandum.

"Excuse me, but you cannot go any farther," courteously noted my guide, acting chief of the control checkpoint, Captain Nikolay Zaynulin.

I watched with interest as the checkpoint controllers, with the aid of Farsi-speaking Private Namik Dzhafarov, gallantly treated a grey-haired Iranian of Azerbaijan nationality. The passport data were neatly entered into the registration book. A beautiful cocker spaniel called Pers, black as night, lounged at the feet of the canine service instructor, Sergeant Nikolay Lesnyakov. The dog's half-closed eyelids did not even twitch as the Iranian, picking up two brightly colored boxes, proceeded to "make the rounds"—toward the work station of the customs inspectors. The dog, we must note, was also performing his duties here, and was also a professional, even though a four-legged one. He was trained to sniff out drugs.

What is it, this simplified border crossing? I will not shy away from high-flown words in saying that it is the will of the times, a clear example of the policy of new thinking. The riverbanks have long separated many Azerbaijanis and their families, but only after the alarming events which took place at the beginning of last year, after those very same dark days when angry mobs in the region of

Nakhichevan raided border stations, were specific decisions adopted which somewhat defused the situation at the border.

Yet what comprises the simplicity of crossing? The commandant of the Astara command post, Lt. Colonel Ye. Senyavskiy, formulated it as follows:

"It is enough to have a Soviet passport on hand, with a special insert issued by the local organs of authority. They place a stamp on the front of the insert, and on the back—the stamp of the border commissar. If either of these is absent, the document is not valid. However, if everything is correctly formulated—then go ahead."

"Go ahead, what do you mean? In a group or individually? For example, is the daily crossing quota defined?," I asked.

"Yes, 200 people according to the lists compiled at the appropriate ispolkom. But this is where the problems start," sighed Yevgeniy Yuryevich.

Yes, if we look truth in the eye, they are a headache for the border guards and the customs service. Here is elementary arithmetic for you. The population of the three rayons which have been "designated" for simplified crossing—Astara, Lerik, and Lenkoran—is on the order of 300,000 persons. As stated in the memorandum, each of the residents has the right to visit four times a year. This number, it is true, may be increased in case of illness and death of relatives, religious holidays and other extraordinary circumstances.

"If we divide the total population of the rayon residents by two-time passage of 200 people a week, what will we have?," the lieutenant-colonel raised his brow. "Why, that would mean that theoretically each person would be able to visit Iran... once in 3-5 years. And now tell me: Do you have any idea what biblical subjects are?"

Now I do. It is Monday and Tuesday at the Astara border checkpoint. It is those 200 anxious lucky ones who take their place in line on Sunday night. Plus the thousand, or sometimes even more, "fans" who come to see them off, many of whom come here in cars. The human sea flowing with emotions engulfs the small asphalt patch in front of the blue gates leading to the work zone. The horns of the "Zhiguli" honk, the crowd roars, pushing up against the low stone wall and managing to pass various forbidden items to the lucky ones—money, packages, messages...

That is why every Monday and Tuesday means wet foreheads for the border guards, including those who come here specially as part of the motorized group to keep order. It means salt on the uniform jackets of the customs agents. One of them, Senior Customs Inspector Safail Abdullayev, a former "Afghani" and recipient of the Order of the Red Star, told me this: "If during these

days we remove for even a minute the border guards who oversee the crossing regimen, we would be instantly swept away".

"So, can we not allow more people to pass?"

"Why no, we could. We are ready to increase their number by 4-5 times. Naturally, with good organization. But our neighbors are not yet able to "process" such a mass of people. The passage capacity of their checkpoint does not allow it."

This is one contradiction. And here is another. The simplified crossing is in some ways like an unequal marriage.

"Our people are allowed to take 30 rubles worth of gifts into Iran, plus 10 rubles for themselves," explained customs agent Abdullayev. "And this at the height of inflation? From there, however, they may bring gifts for a sum of up to 500 rubles. You can bring more, but then you must pay a customs duty. Moreover, an Iranian has the right to hold any hard currency. Only rubles may not be brought in. Now you understand why our people want to stock up on goods when they set off for their trip?"

Yes, not everything is perfect in the moonlight, and it is primarily man himself who is imperfect. One desperately needs to visit his relatives, while another desperately needs to satisfy the speculator's itch, to make use of such a convenient "cover". It is a pity. After all, the simplified crossing is a great, thousand-times humane thing. For example, I spoke with the first secretary of the Astara party raykom, S. Mamedov, a man who is no longer young, but extremely friendly and sincere. So it was that his father-in-law, after 55 years, had found his 90-year old mother on the Iranian side. There had already been a mutual exchange of visits. Can the happiness found here be measured in money?!

"But there is also much that fills the soul with bitterness," says Sultan Israfilovich, his face becoming sad. "There are many who use the crossing for personal gain. People try to get out of work in the fields under any pretext, just so they can get to the other bank. And then the "dear guests" from the other side quite often leave us without food products after their departure. They buy up the standing crops and grain."

Well, and our people strive to bring out metal goods and light bulbs. Sometimes they come to the checkpoint with televisions and refrigerators. I myself saw how aluminum buckets were immediately bought up in one household goods store, with pushing and shoving. They told me that these buckets are very popular with the Iranians. They also bring fabrics and apparatus,

including the longed-for "vidiks" [video recorders] and other imported odds and ends, as well as cigarettes, perfume, and lighters...There is no doubt that in time the unequal economic marriage of simplified crossing will be overcome. I believe the accursed, demeaning deficit will in time disappear in our country, a deficit which motivates people toward speculation and turns some residents of strictly agricultural rayons into industrial merchants. But that will be in time. But for now we have what we have.

...In parting, as an avid dog lover, I looked once again with unconcealed envy at the amazing cocker spaniel Pers. "Why does he have such sad eyes?", I asked Sergeant Lesnyakov. Nikolay smiled:

"Perhaps he is thinking about what awaits him on Monday."

That is right. Monday is a hard day for everyone here.

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